

FROM THE PAST TO THE PRESENT

And Building for the Future

YUKON ENERGY
CORPORATION

2008

Annual Report





Left: Construction on the
Whitehorse dam, c. 1957.
PHOTO: Yukon Archives/Whitehorse Star.

Right: Stringing line on
the Carmacks-Stewart
transmission project.
PHOTO: www.archbould.com



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Yukon Energy is committed to providing our customers with exceptional value in rates, service, reliability and public safety. This annual report is a tribute to all our customers and our highly professional and dedicated staff.



MESSAGE FROM THE PRESIDENT

This was, without a doubt, one of the busiest years in Yukon Energy's history. Not only did we complete Stage 1 of a new 138 kV transmission line in the Central Yukon, but we were involved in a number of other projects aimed at addressing the growing need for electricity in the territory. This includes preparing for the installation of a third hydro turbine at our Aishihik plant in the southwestern Yukon, refurbishing two of our oldest diesel units, and searching for viable options for new renewable energy development. We also filed a General Rate Application in the fall of this year.

Stage 1 of our new transmission line, from Carmacks to Pelly Crossing with a spur to the Minto mine, has allowed Yukon Energy to provide the mine and the community of Pelly Crossing with surplus hydro power (previously both were on diesel). This has led to reductions in greenhouse gas emissions of between 25,000 and 30,000 tonnes per year. This project provided employment for some 200 individual Yukoners and economic opportunities for over a dozen Yukon businesses.

Stage 2 of the line, from Pelly Crossing to Stewart Crossing, will connect our two major power transmission systems, giving us long-term benefits including greater flexibility and system reliability. We are currently working to secure funding so that we can begin construction of Stage 2 in the summer of 2009, with completion planned for late 2010.

Another priority for Yukon Energy in 2008 was to find new capacity on our system and new sources of generation. We worked to rebuild one of our Mirrlees diesel generators in Faro and began rebuilding a Whitehorse Mirrlees unit. Two other Whitehorse diesel generators will be rebuilt over the next several years as necessary.

We also began pre-feasibility work for a potential project in Mayo in the central Yukon. This proposed initiative, known as Mayo B, involves building a new powerhouse a few kilometres downstream from the existing one. This would double the amount of energy that can be generated from the Mayo River, from five to between 10 and 13 megawatts. No changes would be required at Wareham Lake or to the Wareham dam.

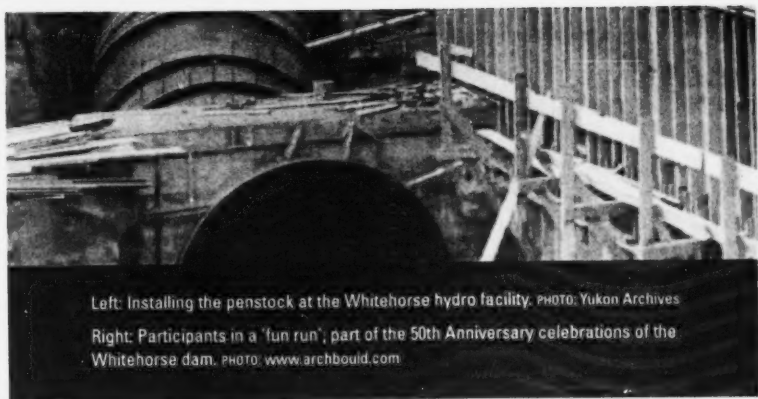
Mayo B would be developed to help supply Yukon-wide power loads and is conditional on the completion of Stage 2 of the Carmacks-Stewart line. It would only occur after meaningful consultation with stakeholders, and after all permits and approvals are obtained. It would also be contingent on government funding. In late 2008 we began consultation with the First Nation of Nacho Nyak Dun, the Village of Mayo and other stakeholders about this potential project. These discussions will continue into the new year.

Yukon Energy continued our work necessary for a third hydro turbine at our Aishihik facility. The Yukon government has committed \$5 million towards the cost of the new unit, which we expect to install in 2010. This third turbine at Aishihik will provide seven megawatts of power.

Aside from seeking additional hydro opportunities, Yukon Energy also devoted some time in 2008 researching the possibility of using geothermal heat to produce electricity. Yukon is located in an area of the Pacific known as the 'Ring of Fire'. We believe the potential is good for finding geothermal resources significant enough to produce a substantial amount of electricity – possibly between 500 and 1,500 megawatts of power. Research work will continue in this area in 2009.

In keeping with our commitment of preventative maintenance, Yukon Energy devoted significant time and money to upgrading/replacing some of our generation and transmission assets. In spite of this, some equipment failures meant Yukoners suffered more power outages than usual this year. Yukon Energy takes our responsibility of providing safe and reliable electricity very seriously. We have reviewed our list of capital projects and have established an aggressive schedule for system improvements to

Aishihik hydro plant.
PHOTO: Derek Crowe



Left: Installing the penstock at the Whitehorse hydro facility. PHOTO: Yukon Archives

Right: Participants in a 'fun run', part of the 50th Anniversary celebrations of the Whitehorse dam. PHOTO: www.archbould.com



greatly reduce the likelihood of future controllable power outages. We anticipate having many of the upgrades completed by the end of 2009. We recognize that we have some way to go to win back the trust of Yukoners; we plan to work very hard to do so.

In early October, Yukon Energy applied to the Yukon Utilities Board for approval of our 2008 and 2009 revenue requirements, including rate reductions for first block residential customers. These reductions would have resulted in an overall saving to ratepayers in 2009 of \$1,334,000. Second block energy charges would have been increased, with all the resulting added revenues used to contribute to the proposed first block reduction. We asked that our proposed rates be implemented on an interim basis this fall.

However the Yukon Utilities Board rejected Yukon Energy's interim rate proposal, saying it wanted to wait for a future hearing to examine the ideas we had put forward. Instead, the YUB ordered that all ratepayers, except the Minto mine and Secondary Sales customers, receive an interim rate decrease of 3.48 percent. The interim rate went into effect on December 1st. Oral hearings on Yukon Energy's application will take place in May 2009.

In the area of safety, Yukon Energy worked hard in 2008 to bring about a positive change in the safety culture of our organization. We are now registered in the Certificate of Recognition (COR) program. COR is a safety and health certification program designed to help companies develop and maintain a safety and health management program for all staff. Under the program, a Certificate of Recognition is given to employers once COR training is finished, a safety program is developed and implemented, and an external safety audit is done. Yukon Energy believes that by participating in this program we will strengthen our business success and show leadership in the community.

In terms of Human Resources, in 2008 Yukon Energy for the first time offered our employees the option of participating in flexible work arrangements. A number of our staff took advantage of this new opportunity. Yukon Energy believes these arrangements will increase our ability to attract, retain and motivate good employees and will lead to increased job satisfaction.

Similar to many employers, we have a large number of staff whose retirement plans are on the near horizon. We have begun offering retirement planning seminars as part of our commitment to help employees better prepare for a secure and successful retirement.

Also in 2008, we introduced a wellness program to promote and support employees' physical and mental health and we implemented our first corporate intranet site to facilitate the sharing of information.

While our primary responsibility is to provide safe, reliable and cost-effective electricity to Yukoners, we have a strong connection to the communities in which we live and work. Yukon Energy offers financial assistance by way of cash donations to a wide variety of non-profit groups based in the Yukon. In 2008 we gave more than \$75,000 to over 40 community organizations and we donated a van to the Whitehorse Food Bank. We also gave scholarships to seven students entering pre-apprenticeship or post-secondary programs. We completed the fourth full year of an apprenticeship and training benefits agreement with the Nacho Nyak Dun and Tr'ondëk Hwëch'in First Nations, as part of an arrangement reached during the construction of the Mayo-Dawson transmission line.

Yukon Energy marked the 50th anniversary of the Whitehorse dam this year with a public celebration. Yukoners and visitors took part in a number of activities including a fun run, hydro plant tours, and an outdoor celebration with food, live music and memory sharing.

As always, our ultimate goal is to achieve operational excellence. We measure our success by our ability to deliver safe, reliable power to our customers, our ability to attract and retain a skilled and engaged workforce, our respect for the environment and for the communities and people we serve, and the knowledge that safety is a part of every decision we make and every action we take.

David Morrison
President and CEO

Right: Installing one of the first turbines at the Whitehorse Rapids Hydro Facility.

PHOTO: Yukon Archives.

Far right: Yukon Energy employee Ramona Toth.

PHOTO: www.archbould.com



OVERVIEW

Established in 1987, Yukon Energy is a publicly-owned electrical utility that operates as a business, at arms length from the Yukon government. We are the main generator and transmitter of electrical energy in Yukon and we work with our parent company Yukon Development Corporation to provide Yukoners with a sufficient supply of safe, reliable electricity and related energy services.

There are almost 15,000 electricity consumers in the territory. Yukon Energy directly serves about 1,800 of these customers, most of whom live in and around Dawson City, Mayo and Faro. Indirectly, we provide power to many other Yukon communities (including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin) through distribution to the Yukon Electrical Company Limited. Yukon Electric buys wholesale power from Yukon Energy and sells it to retail customers in the territory.

Yukon Energy has the capacity to generate 112 megawatts of power. Seventy-five megawatts of that are provided by our hydro facilities in Whitehorse, Mayo and Aishihik Lake (40 megawatts at Whitehorse, 30 megawatts at Aishihik and five megawatts at Mayo), 36 megawatts by diesel generators (which we currently only use as back-up) and 0.8 megawatts by two wind turbines located on Haeckel Hill near Whitehorse.

Yukon Energy is incorporated under and regulated by the *Business Corporations Act*, the *Public Utilities Act* and the *Yukon Waters Act*.

Our headquarters are located near the Whitehorse Rapids hydro plant in Whitehorse, with community offices in Mayo, Faro and Dawson City.

Vision

We are recognized as one of the best managed utilities in Canada, meeting the needs of our customers with a sustainable, reliable, cost-effective supply of electricity through:

- A passion for safety and environmental stewardship in all our activities;

- Being profitable and financially strong, capable of investing in the future, by expanding and upgrading our generation and transmission infrastructure;
- A well-managed, dedicated and highly qualified work force;
- Being operationally and administratively efficient; and
- Maintaining good working relationships with key stakeholders, including government and First Nations.

Mission

Strengthen and grow our core businesses of generation, transmission and distribution in the following ways:

- Secure approval and financing for near-term resource plan projects
- Improve organizational capabilities – planning and project management
- Streamline work processes
- Strengthen our human resources through an emphasis on employee development, improving teamwork, and implementing strategic workforce initiatives

Values

Our actions and activities are guided by our core values:

- Commitment
- Integrity
- Effective Service
- Safety
- Learning, Growth and Development
- Respect
- Teamwork
- Accountability



OUR EMPLOYEES

Yukon Energy employs approximately 80 highly skilled and dedicated people in Whitehorse, Faro, Mayo and Dawson City. We are committed to being the employer of choice in Yukon. We value our employees and ensure that we provide a respectful work environment. We offer competitive salaries, excellent benefits, generous paid vacations, vacation travel allowance and comprehensive training.

In 2008 we gave our employees the option of participating in flexible work arrangements. We believe the benefits of flex time include:

- An increased ability to attract, retain and motivate high-performing and experienced employees.
- Helps employees manage their responsibilities outside of work.
- Increased job satisfaction, energy, creativity, and ability to handle stress.

A significant percentage of our staff are taking advantage of this new option.

Similar to many employers, we have a number of employees whose retirement plans are on the near horizon. We now offer retirement planning seminars, as part of our commitment to help employees better prepare for a secure and successful retirement.

We recognize the benefits of a healthy workforce. In 2008 we introduced an employee wellness program to promote and support employees' physical and mental health.

As a way of improving our internal communications, we implemented in 2008 our first corporate intranet site. We also launched a 'Bright Ideas' program, which encourages staff to submit suggestions for improving our company. Already the program has yielded some excellent ideas.

We are proud of our workforce and we have adopted several initiatives to celebrate and recognize our employees' efforts. These include an annual celebration to recognize employees achieving milestones, annual employee and children's Christmas parties, summer barbeques, golf tournaments and other ad-hoc get-togethers.

We would like to congratulate our 13 employees who received Long Service Awards this year.

15 years

Mike Hannah

10 years

Tom Debolt, Wendy Fendrick, Bob Gingras, Linda Greer, Pat Marcoff, Brian Power, Tara Schultz, Bill Haydock and Jack Weir

5 years

George Burns, Robert Mura and Al Porter

We would also like to congratulate Calvin Kirkwood and Jeremy Germaine, both of whom received Apprenticeship Awards of Excellence from the Yukon government. To qualify, they had to score 85 percent or higher on their apprenticeship exams. Apprenticeship programs are an important part of Yukon Energy's workforce strategy. It's also a pleasure to recognize Calvin Kirkwood and Jim Petelski on the completion of their apprenticeship training in Powerline Technician and Heavy Duty Equipment Technician (Off Road) respectively.

SUMMARY OF UTILITY OPERATIONS

	2008	2007	2006	2005	2004	2003
Generating Capacity (in MW)						
Hydro	75	75	75	75	75	75
Diesel	36	36	36	36	36	40
Wind	1	1	1	1	1	1
Total	112	112	112	112	112	116
Peak Demand (in MW)						
WAF System	64	59	61	56	57	51
Mayo	5	5	5	4	4	5
Dawson	0	0	0	0	0	3
Total	69	64	66	60	61	59
Generation (in GWh)						
Whitehorse Rapids	206	206	217	202	206	208
Aishihik	107	98	81	81	71	61
Mayo	28	27	27	25	24	13
Wind	0	0	1	0	0	1
WAF Diesel	1	0	1	0	0	0
Other Diesel	0	1	0	1	1	11
Total	342	332	327	309	302	294
Electric Sales (in \$000)						
Residential	1,523	1,509	1,456	1,397	1,395	1,370
General Service	2,804	2,731	2,645	2,838	2,216	2,103
Industrial	329	-	-	-	20	36
Wholesale	22,999	22,459	22,127	20,925	20,773	20,232
Secondary Sales	777	1,000	917	767	369	315
Other	86	377	383	371	131	141
Total	28,518	28,076	27,528	26,298	24,904	24,197
Electric Sales (MWh)						
Residential	11,359	10,908	10,665	10,169	10,199	10,001
General Service	18,523	17,507	17,037	18,438	14,016	13,375
Industrial	3,200	-	-	-	247	452
Wholesale	263,820	254,914	251,861	237,419	235,982	229,971
Secondary Sales	18,753	24,225	22,185	18,933	16,517	13,621
Total	315,655	307,554	301,748	284,959	276,961	267,420
Cents Per kWh						
Residential	13.41	13.84	13.66	13.74	13.68	13.70
General Service	15.14	15.60	15.52	15.39	15.81	15.73
Industrial	10.28	-	-	-	8.04	8.05
Wholesale	8.72	8.81	8.79	8.81	8.80	8.80
Secondary Sales	4.14	4.13	4.13	4.05	2.23	2.31

Explanatory notes:

- 2008 is the first year for Minto mine as an Industrial customer and Pelly as an added Wholesale POP service point.
- Secondary sales are down by 5.5 GWh. 1.3 GWh is due to a hydro unit being out of service in October and 1 GWh is due to system peak constraining the availability of secondary sales in December. The remaining 3.2 GWh is due to institutional customers (hospital and extended care) using less due to equipment maintenance.
- General service sales are up from prior year by 1 GWh due to increased usage at the Faro mine water treatment which fluctuates from year to year depending on how aggressive their program is for that year.
- Wholesale purchase of power was up by 9 GWh with 8 GWh being sales to YECL for Whitehorse and .225 GWh for Pelly Crossing.

Below: Inside the penstock at the Whitahorse Rapids hydro dam, c. 1958. PHOTO: Yukon Archives/Whitehorse Star

Right: Working on the Carmacks-Stewart transmission line. PHOTO: www.archbould.com



KEY ACTIVITIES

General Rate Application

This fall, Yukon Energy applied to the Yukon Utilities Board (YUB) for approval of our 2008 and 2009 revenue requirements, including rate reductions for first block residential customers. These reductions, if approved by the YUB, would have resulted in an overall saving to ratepayers in 2009 of \$1,334,000. The requested rate decreases reflect revenues from the connection of the Minto mine to our transmission system.

As a way of promoting energy conservation, Yukon Energy proposed that rate reductions occur only for the first block energy charges. Second block energy charges would have been increased, with all the resulting added revenues used to contribute to the proposed first block reduction.

There is a growing demand for electricity in Yukon. While we are aggressively looking for new renewable power to meet this demand, this process takes time. In the absence of new generation, we face the prospect within a few years of running out of hydro and turning on our diesels. That's why it's important to send price signals to Yukoners that will encourage them to practice energy conservation as much as possible.

However in November, the Yukon Utilities Board rejected Yukon Energy's interim rate proposal. It said it wanted to wait for a future hearing to examine the ideas we had put forward. Instead, the YUB ordered that all ratepayers, except the Minto mine and Secondary Sales customers, receive an interim rate decrease of 3.48 percent. The interim rate went into effect on December 1st.

Oral hearings on Yukon Energy's application will take place in May 2009. We hope that at that time, the YUB will consider our original proposal.

Carmacks-Stewart Transmission Line Project

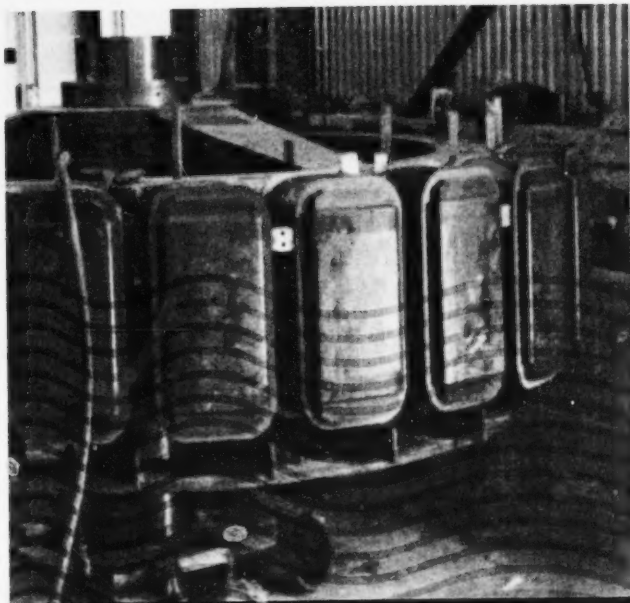
Yukon Energy is in the process of building a new 138 kV transmission line from Carmacks to Stewart Crossing in the central Yukon. A primary focus in 2008 was the construction of Stage 1 of the line, between Carmacks and Pelly Crossing (a distance of approximately 172 kilometres), with a spur to the Minto mine. After a winter of surveying and clearing, construction took place throughout the spring and summer. The line was energized in November.

This project has allowed Yukon Energy to supply the Minto mine with surplus hydro power, reducing greenhouse gas emissions by between 25,000 and 30,000 tonnes per year (by displacing the Minto mine's on-site diesel generation). It has also allowed the community of Pelly Crossing to switch from diesel to clean hydro for their electricity, reducing greenhouse gas emissions by a further 1,400 tonnes.

The transmission line project resulted in substantial economic benefits for Yukon. In total, it's estimated that approximately 200 Yukoners worked on this project. The transmission line was affordable because of a Yukon government contribution of \$10 million, a contribution of \$7.2 million from Sherwood Copper (recently renamed Capstone Mining Corporation – owners of the Minto mine), and an additional \$7 million from the Yukon Development Corporation.

The project only went ahead after Yukon Energy finalized a Power Purchase Agreement with the Minto mine, reached a project agreement with the Northern Tutchone First Nations, and underwent an extensive environmental screening by the Yukon Environmental and Socio-Economic Assessment Board and three public hearings by the Yukon Utilities Board.

Stage Two of the line, from Pelly Crossing to Stewart Crossing, will connect our two major power transmission systems, giving us long-term benefits including greater flexibility and system reliability. We are currently working to secure funding and anticipate construction of Stage 2 will begin in the summer of 2009, with completion in late 2010.



Above: Inner workings of one of our early hydro generators.
PHOTO: Yukon Archives

Above right: One of the Open Houses that took place to inform Yukoners about the Mayo B project. PHOTO: www.archbould.com

Mayo B

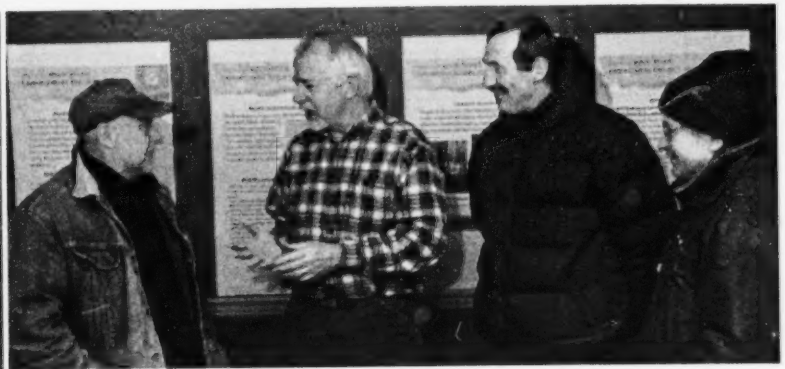
In looking for additional renewable power, our first priority is to enhance our existing hydro facilities. As such, we are looking at expanding our Mayo hydro plant in the central Yukon, a potential project called Mayo B.

The proposed initiative involves building a new powerhouse about three kilometres downstream from the existing powerhouse. This would double the amount of energy that can be generated from the Mayo River (from five megawatts to between 10 and 13 megawatts). No changes would be required at Wareham Lake or to the Wareham dam. The current plan is to maintain the existing powerhouse for use as required in the future.

In 2008 we began consulting with local governments, stakeholders and the public. These consultations will continue into 2009. Public involvement is important to help Yukon Energy plan and shape this project. We are working closely with the First Nation of Nacho Nyak Dun to reach a Memorandum of Understanding and a Project Agreement. Various permits and government approvals are required and the project needs a new or revised water license from the Yukon Water Board. It must also undergo an environmental screening by the Yukon Environmental and Socio-Economic Assessment Board, and Yukon Energy has committed to take all projects worth more than \$3 million to our regulator, the Yukon Utilities Board, for review. Mayo B is conditional on the completion of Stage 2 of the Carmacks-Stewart transmission line.

If this project does move forward, the earliest in-service date will be 2011 or 2012.

The Yukon government is working with Ottawa to help secure funding for Mayo B.



Aishihik Third Turbine

In 2008, Yukon Energy moved ahead with the work needed to install our Aishihik third turbine. This is one of three short-term projects that we have identified in our 20-year Resource Plan. The seven-megawatt hydro generator will be added to the existing Aishihik hydro plant (which currently has two 15 megawatt hydro turbines) at a cost of approximately \$8.5 million in 2008 dollars. The new generator will provide energy by improving the efficiency of water use, to allow us to get more energy out of the same amount of water. It will also help displace diesel that might otherwise be required during peak times of the day.

The Yukon and federal governments have committed to provide \$5 million to help fund this project. The project will save Yukon Energy \$1 million or more per year in diesel costs and will reduce greenhouse gas emissions by an estimated 3,800 tonnes annually. We expect to install Aishihik 3 by late 2010.

Diesel Improvements

While we consider ourselves primarily a producer of renewable energy, there are times when we must rely on our back-up diesel generators to meet the demand for electricity. Over the last couple of years we have started refurbishing our Mirreles diesel units (the oldest units in our fleet). In 2008 we worked to rebuild one of the generators in Faro and began rebuilding one of our Whitehorse units. Over the next several years we will look at refurbishing two more Whitehorse Mirreles diesel generators as necessary.

Reliability

We take our responsibility to provide reliable power very seriously. Yukon Energy devoted a significant amount of time and money to upgrading or replacing some of our generation and transmission assets. In spite of this, we had some equipment failures that resulted in a higher than normal number of power outages. This is as unacceptable to us as it is to the Yukon public. While we can't prevent all outages (Mother Nature has a hand in some of them) there are things we are doing to improve reliability.

We have reviewed our list of capital projects and have established an aggressive schedule for system improvements to greatly reduce the likelihood of future controllable power outages. We anticipate having many of the upgrades completed by the end of 2009. Thankfully, our plan is already starting to show favourable results.

We are also working with Yukon Electrical Company Ltd. to make changes to the transmission and distribution systems, so that if there is an outage, it will affect a smaller geographical area, meaning fewer people will lose power.

A comparison of our power outages elsewhere in Canada shows that while we have more black-outs, they are much shorter in duration than the national average.

The bottom line for Yukon Energy is that we are committed to doing better, and we are working as hard as we can to win back public confidence.

Geo-thermal Power

Yukon is located in an area of the Pacific known as the 'Ring of Fire'. Because of this, we believe the potential is good for finding geothermal resources significant enough to produce a substantial amount of electricity – possibly between 500 and 1,500 megawatts of power. In 2008 we did some initial research into possible Yukon sources of geothermal energy. The work will continue in 2009 by way of using remote sensing satellite imagery and infrared thermal sensors to help locate thermal hotspots.

Southern Lakes Hydrology Study

To help us in our quest for future hydro possibilities on the Southern Lakes, we needed a way of analyzing what effect a hydro project on one part of the Southern Lakes would have on the rest of our system. In 2007 we hired a consulting firm to produce a model for us, so that we can answer such questions. The results were made available to us this year. The information is invaluable in terms of future planning.

While doing this work, we asked the firm to also find out if lowering the spring water levels in Marsh Lake would lower the peak water levels in the lake later in the summer. This was an important question to ask, in light of record flooding on Marsh and Tagish Lakes in 2007. The research confirmed the conclusions reached in an earlier study... that lowering spring water levels in Marsh Lake does not help to reduce peak summer levels. That's because the volume of water coming into Marsh Lake is far greater than that going out, no matter what Yukon Energy does.

A second study commissioned by Yukon Energy in 2008 looked at two other issues: 1) what would the 2007 water levels at Marsh Lake have been if the Marsh Lake Control Structure was not in place and 2) what would the 2007 water levels at Marsh Lake have been if Yukon Energy had lowered Schwatka Lake for the entire summer. In both cases, the study found that neither scenario would significantly decrease the peak water levels at Marsh Lake. Instead, it concluded that the Yukon River has some natural features that constrict the flow of water.

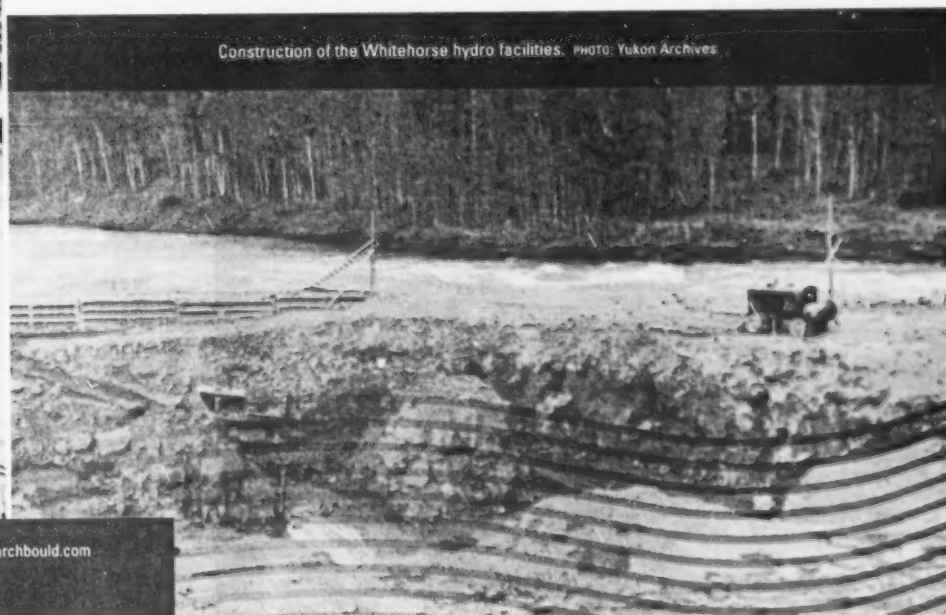
Mayo-Dawson Transmission Line

The Mayo to Dawson City transmission line, which has operated since the fall of 2003, involved building a 232-kilometre transmission line and related infrastructure to connect the City of Dawson to the Mayo hydroelectric station. It has allowed Yukon Energy to supply Dawson with clean surplus hydro electricity (Dawson's diesel generators are now only used as emergency back-up) and has reduced greenhouse gas emissions by 10,000 tonnes a year.

For the fourth full year, Yukon Energy fulfilled its training agreements with the First Nation of Nacho Nyak Dun and the Tr'ondëk Hwëch'in First Nation, as part of the Mayo to Dawson Transmission Line Benefits Agreement. Through this agreement, we provide each of the two First Nations with up to \$15,000 a year for apprenticeship and training opportunities. The agreement is for 20 years with an option to renew for a further five years. We believe this is going a long way in helping the Tr'ondëk Hwëch'in and Nacho Nyak Dun achieve their training needs and is assisting members of the two First Nations to find meaningful employment.



Powerline apprentice David Bourque. PHOTO: www.archbould.com



Construction of the Whitehorse hydro facilities. PHOTO: Yukon Archives

Secondary Sales

During most times of the year, Yukon Energy has the ability to produce more hydro-generated electricity than it needs for its customers, although this surplus is expected to be gone within a few years. Until then, we will continue to operate our Secondary Sales Program.

This program gives eligible Yukon businesses the option of using hydro power to heat their facilities instead of diesel fuel or propane, both of which are more expensive. However, there are some stipulations: the service is limited and is fully interruptible, and the business' existing heating system must be maintained and fully operational so that it can be re-activated on 24 hours notice. A second electrically fired heating system must be added in order to utilize the secondary sales electricity as a heating source. The business must also be located in an area that is served by hydro-generated power.

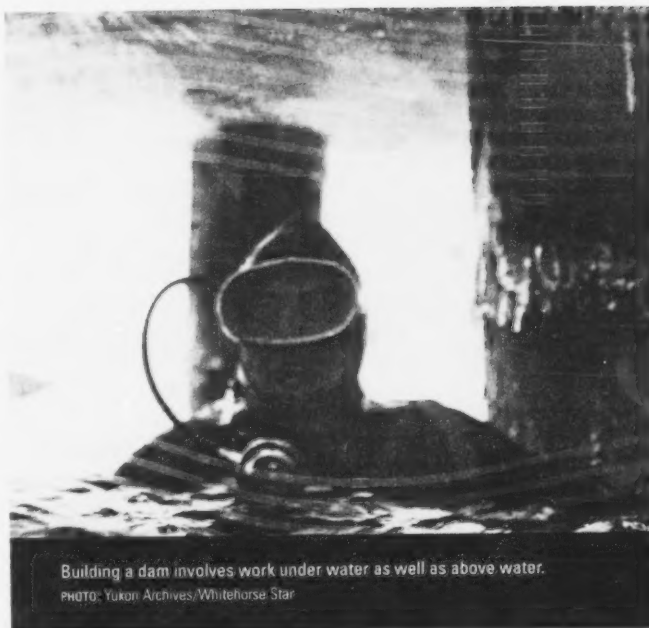
In 2008 secondary energy sales decreased by 22.6 percent from 2007. These sales, however, still accounted for 5.9 percent of Yukon Energy's total energy sales. The reduction is secondary sales this year was due in large part to reduced consumption by several of the larger institutional customers.

Legal Issues

A long-standing legal dispute between Yukon Energy and the company we hired to design and build the Mayo to Dawson transmission line was resolved in 2008. The out of court settlement saw us paying Chant Construction \$3 million.

We are relieved to finally have this dispute settled. An expensive and drawn out court process would not have benefited anyone and would have cost Yukon Energy several million dollars in legal fees alone. We believe it's far better for Yukoners that we have resolved this dispute and put the issues to bed. The \$3 million was not paid by Yukon ratepayers but was covered by our parent, Yukon Development Corporation.

Safety meetings are a daily occurrence at Yukon Energy.
PHOTO: www.archbould.com



Building a dam involves work under water as well as above water.
PHOTO: Yukon Archives/Whitehorse Star

Health and Safety

Public Safety Campaigns

Yukon Energy's Whitehorse Rapids hydro dam is located within city limits and in the heart of a popular recreational area, used by runners, hikers, kayakers and dog walkers. Because of this, public safety is a priority for us. In 2008, we produced a safety booklet in both English and French aimed at elementary school students. The booklet focuses on the importance of taking care when playing or recreating near or on water that is close to our hydro facilities. This booklet complements our annual media campaign that warns people of the dangers of being near a hydro dam.

Employee Safety

As always, safety is one of our key values. We believe it must be a part of every decision we make and every action we take. Yukon Energy worked hard in 2008 to bring about a positive change in the safety culture of our organization. We are now registered in the Certificate of Recognition (COR) program. COR is a safety and health certification program designed to help companies develop and maintain a safety and health management program for all staff. Under the program, a Certificate of Recognition is given to employers once COR training is finished, a safety program is developed and implemented, and an external safety audit is done. Yukon Energy believes that by participating in this program we will strengthen our business success and show leadership in the community.

Passport to Safety

For the past four years, Yukon Energy has participated in a national program aimed at eliminating workplace injuries and deaths. The Passport to Safety Program supports and encourages education and workplace-specific safety training for all employees. It offers an on-line test to help make people aware of their rights and responsibilities regarding health and safety, and therefore better prepares them to keep safe while at work.

Yukon Energy is promoting this program during the hiring process, and completion of the on-line test is an asset to people applying for a job at our company.



PROTECTING OUR ENVIRONMENT

Greenhouse Gas Emission Reductions

With the commissioning of Stage 1 of the Carmacks to Stewart transmission line, both the Minto mine and the community of Pelly Crossing have been able to switch from diesel to clean hydro power. That is resulting in annual reductions of between 25,000 and 30,000 tonnes of greenhouse gas emissions. In addition, Yukon continues to benefit environmentally from the construction of the Mayo to Dawson transmission line. Since its completion in 2003, it has supplied residents of Dawson with clean hydro electricity (Dawson's diesel generators are now only used as emergency back-up) and has reduced harmful emissions by 10,000 tonnes a year.

Once our third turbine at Aishihik is installed, we will see additional greenhouse gas reductions of 3,800 tonnes annually.

Going forward, Yukon Energy is committed to working to further reduce greenhouse gas emissions by:

- Incorporating environmental performance considerations in our procurement decisions;
- Identifying, and where possible, incorporating energy efficiency standards into new capital construction projects;
- Seeking opportunities to improve energy efficiency and thus reduce the greenhouse gas emissions of our generation activities as well as our light vehicle fleet;
- Establishing a 'green action committee'; and
- Conducting an energy analysis of all our buildings and completing energy-saving retrofits where feasible.

Climate Change

Recognizing that Yukon Energy cannot address climate change alone, we are participating with government, other organizations and individuals to assess and adopt an approach to addressing climate change in the territory. In 2008, Yukon Energy was a participant in the development of the Yukon government's Climate Change Strategy and Action Plan.

Demand Side Management

In the utility world, demand side management is a term used to describe ways of helping customers reduce their energy consumption, either in general or at particular peak times of the day.

Energy Consumption Chart

In 2008 Yukon Energy developed a simple tool that we hope will help Yukoners manage their energy use and reduce the amount of diesel generation needed to meet peak energy demands in winter.

We have produced a chart that is updated weekly during the winter months and posted on our public web site. The chart shows the expected energy demand at various times of the day, including the peak breakfast and dinner hours, over a seven-day period. The chart indicates how close we are to reaching our hydro capacity and when we will need to supplement with diesel to provide the required amount of power.

We hope that if people look at the chart and see that Yukon Energy is very close to burning diesel, they will think about how they can reduce their energy consumption during those peak times. While this chart is a small step, we hope it will prompt people to think about how and when they use electricity. That will not only help Yukon Energy, but it will be good for people's pocketbooks too.

Above: Chinook salmon in the Whitehorse fishladder.

PHOTO: Derek Crowe.



Workers at the Whitehorse Rapids Fish Hatchery. PHOTO: www.archbould.com

Water Conservation Campaign

Working in conjunction with the City of Dawson and the Yukon government's Energy Solutions Centre, Yukon Energy mounted an information campaign aimed at helping Dawson City residents to reduce their water consumption. The goal was threefold:

1) to assist members of the public in decreasing their hot water heating bills; 2) to help the City of Dawson save on pre-heating costs for water distribution; and 3) to reduce Yukon Energy's use of diesel fuel to generate electricity for hot water heating.

An Open House took place in Dawson, where residents could drop by for free tap aerators, low-flow showerheads, and an information package. Interest appeared to be high but we are waiting for data about whether the campaign resulted in reduced water usage. If the campaign was successful, we will look at expanding the program to other Yukon communities.

Whitefish Study

In 2007 Yukon Energy was involved in an extensive fish monitoring program on the Aishihik Lake area of the southwestern Yukon, near one of our hydro facilities. The monitoring program was carried out in partnership with the Champagne and Aishihik First Nations, the Yukon government's Department of Environment and the Federal Department of Fisheries and Oceans.

The fish were aged and the data results presented to the monitoring program team during a workshop in the spring of 2008. Following the workshop a number of technical analyses and reports were presented. The group has still to decide on what the 2007 data means to the overall health of the Lake Whitefish population. Analysis continues and a resolution to the 2007 study is expected in 2009.

Meanwhile, our annual monitoring program was successfully completed in 2008. The program consisted of winter ice thickness surveying, water temperature monitoring, and fisheries study. The fisheries study consisted of beach seining and small mesh gillnetting components.



Draft tubes – dam construction c1957. PHOTO: Yukon Archives.

Getting up close and personal with chinook salmon at the fishladder. PHOTO: Derek Crowe



Whitehorse Rapids Fishway

The Whitehorse Fishway was built at approximately the same time as the dam (1958/59) to help migrating salmon bypass the dam to reach their spawning grounds. For the second year in a row, there were low salmon returns. Only 399 Chinook passed through the fishladder, compared with 427 in 2007 and 1,720 in 2006.

Each year, Yukon Energy makes improvements to the facility. 2008 upgrades included more new interpretive panels and displays and an expanded children's area (including a microscope to view fish scales and thus tell the age of the fish). Once again this year, First Nation elders were on hand twice a week in our interpretive tent to answer questions from the public. Our fish cam, that allows internet users to view the salmon in our fishladder on-line, remains a very popular feature with people from all around the world.

The fishway is owned by Yukon Energy, operated by the Yukon Fish and Game Association and receives some financial support from the Yukon government's Department of the Environment and the Yukon River Panel. It is one of the Yukon's most popular tourist attractions, typically seeing between 25,000 and 30,000 visitors each summer. In 2008 however, visitor numbers were down to just over 14,500. This trend was consistent with other tourism attractions in the territory. It's believed a strong Canadian dollar, the high cost of gasoline, poor weather and a low salmon run affected the numbers.

Whitehorse Rapids Fish Hatchery

The Whitehorse Rapids Fish Hatchery began operating in 1984 to counteract the numbers of migrating chinook salmon fry being affected by our power plant. In 1996 the hatchery was expanded to accommodate the Yukon government's fresh water fisheries program. Freshwater fish such as arctic char, lake trout, rainbow trout and bull trout are raised to stock pothole lakes in the southern Yukon.

The hatchery operates year round under a funding agreement between the Yukon government and Yukon Energy (we equally share the operating and maintenance costs). Access Consulting manages and operates the facility by way of a contract with Yukon Energy.

Each year, about 60 female and 120 male chinook are removed from the Whitehorse fishladder. Eggs and sperm are collected and mixed. The fertilized eggs are incubated over the winter. Approximately 80 percent of the eggs survive to the fry stage, compared to about 10 percent in the wild.

In 2008 just over 85,300 chinook fry were released into the upper drainage of the Yukon River above the Whitehorse dam.

The fresh water program included the release of approximately 7,000 bull trout fry, 5,000 rainbow trout and 500 kokanee salmon.





SUPPORTING OUR COMMUNITIES

Whitehorse Food Bank

The Whitehorse Food Bank Society is about to open a food bank in the territory. This year Yukon Energy helped the organization by donating \$10,000 and a refurbished van full of non-perishable goods. All of the food was provided by Yukon Energy employees.

Yukon Energy staff have also committed to supplying goods to the food bank during the first week of school in the fall of 2009. That week was chosen as a way to focus on healthy food for families with young children. No child should have to go to school hungry and Yukon Energy hopes our contribution will help those families struggling at a time when they have added expenses such as school supplies and clothing.

Southern Lakes Community Meetings

Our Whitehorse hydro facility uses water from the Southern Lakes system to operate. As a community service to residents on Tagish and Marsh Lake, Yukon Energy holds annual information meetings to update the public on what we expect peak summer water levels will be. The information is useful to residents because it assists them in preparing their properties for possible flooding in high water years.

In addition to holding public meetings, Yukon Energy provides weekly summer water level updates to Tagish and Marsh Lake residents via email and our web site.

Swan Cam

One of the first signs of spring in the Yukon is the return of the swans and other waterfowl, as they head to their nesting grounds further north. The birds gather by the hundreds at M'Clintock Bay on Marsh Lake in the southern Yukon. The bay is the first open water in the region and offers the birds easy access to food.

In 2008, Yukon Energy set up a webcam so that people can view the waterfowl in real time via their computers. The public response has been very favourable, with people from all over the world going on-line to see the swans.

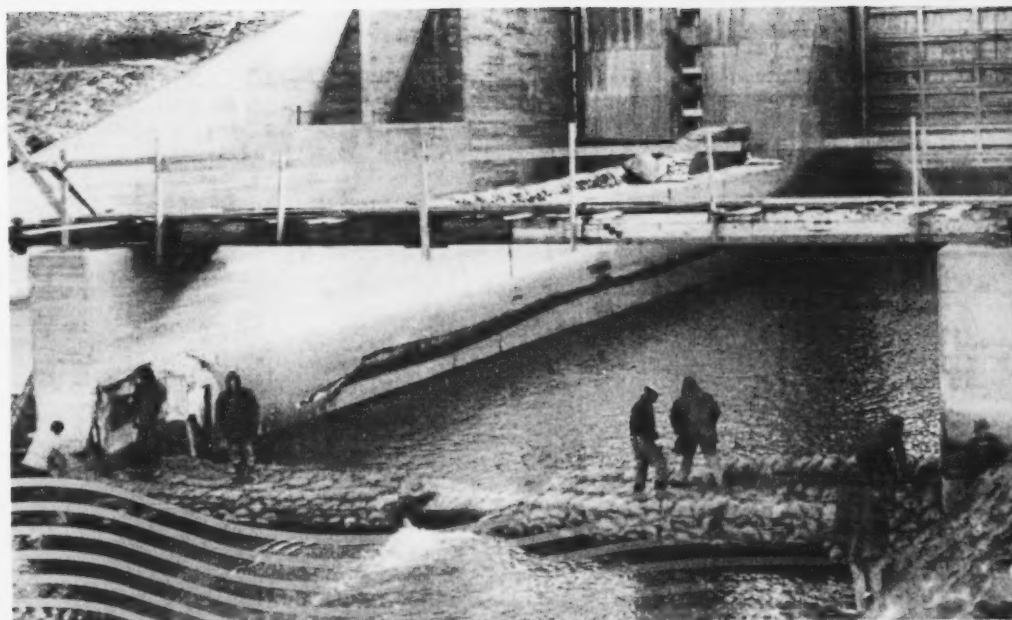
This year we were also a major sponsor of the 21st Trumpeter Swan Society Conference, held in Whitehorse in April.

Rescue Equipment

A partnership between Yukon Energy and the Whitehorse Fire Department in 2008 means a new piece of equipment is available for use in rescuing people from confined spaces.

We bought the rescue winch primarily for our Aishihik hydro plant. However, through an agreement with the City of Whitehorse, we have provided the winch to the local fire department, so it can be used in rescue situations for the general public as well as at our own facilities.

Having access to the electric winch means the fire department can rescue someone in a fraction of the time it takes when using ropes and pulleys. The winch can be used to remove people from manholes or rescuing those who have fallen or driven off a steep embankment.



Opposite page: Yukon Energy staff gather to donate a van full of food and a \$10,000 cheque to the Whitehorse food bank.

PHOTO: www.archbould.com

Left: Whitehorse hydro facilities construction.

PHOTO: Yukon Archives/Whitehorse Star

French Service Award

L'Association franco-yukonnaise presented Yukon Energy with an award this year for excellence in providing French language services. Specifically the award recognizes us for offering tours of our Whitehorse plant in French and for preparing various brochures, pamphlets and safety booklets in French.

Financial Contributions to Non-Profit Groups

Yukon Energy continues our tradition of sponsoring the good work of non-profit organizations throughout the territory. Through our corporate contributions program, we donated more than \$75,000 to a variety of community groups in 2008. The list covered everything from sports and recreation, the arts, education, and health and social services.

Our sincere thank you to Yukon Energy for your financial contribution to our event. This kind of support from Yukon's business community is what makes it possible for us to continue to promote the trades to our young people.

Young Women Exploring Trades Conference

Over the past nine years our film festival has become a unique and important event on the Yukon's cultural calendar. Yukon Energy has been a major supporter of the festival and we gratefully acknowledge your assistance.

Dawson City International Short Film Festival

On behalf of the PGI Golf Tournament for Literacy, we would like to thank you for your generous donation. Your commitment to helping literacy initiatives in our community is sincerely appreciated.

Yukon Learn Society

We are very pleased with the substantial financial support received from your corporation to complete the Yukon Energy Lights Up the House Curling Program. The program will benefit many recreational curlers in Mayo and Dawson.

Yukon Curling Association

Scholarships

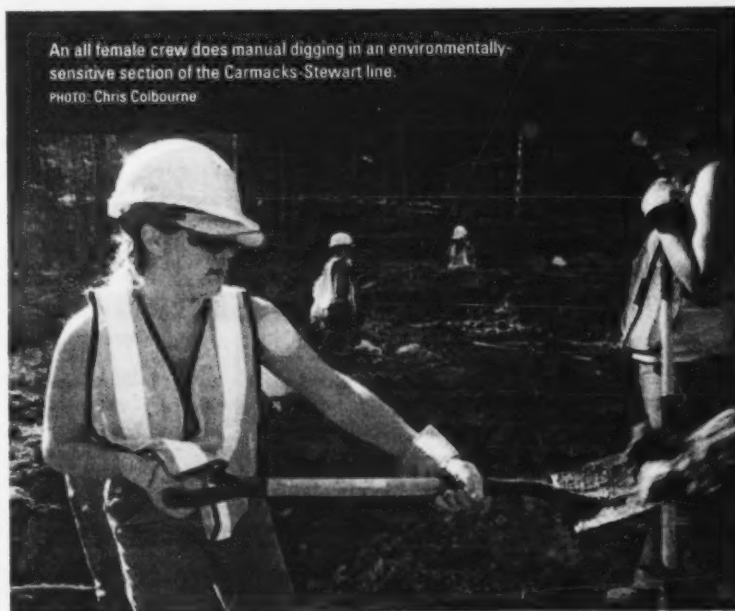
Once again this year Yukon Energy offered several scholarships for pre-apprenticeship as well as post-secondary programs. In total, scholarships were given to seven deserving post-secondary students in 2008. Congratulations to this year's recipients:

Devon Saggars
Duncan Smith
Kristen-Ashley Trotter
Rahul Kumar
Bendicht Vogt
Sarah Thompson
Dylan Stewart

We also completed the fourth full year of an apprenticeship and training benefits funding agreement with the Nacho Nyak Dun and Tr'ondëk Hwëch'in First Nations, as part of an agreement made during the construction of the Mayo to Dawson transmission line.

An all female crew does manual digging in an environmentally-sensitive section of the Carmacks-Stewart line.

PHOTO: Chris Colbourne





Above: Yukon Energy President David Morrison (left) speaks with a member of the crew that built the Whitehorse dam, during our 50th anniversary celebrations.

PHOTO: www.archbould.com

Right: Whitehorse dam construction 1957.

PHOTO: Yukon Archives

50th Anniversary Celebrations

2008 was a very special year for Yukon Energy. It was the 50th anniversary of the Whitehorse dam. We marked the event with a public celebration. Yukoners and visitors took part in a number of activities including a fun run across our dam and around the Millennium Trail, tours of one of our hydro plants, and an outdoor celebration with great food, music and stories from people who were members of the original dam construction crew or who worked at the site during its early days.

Community Involvement

It is important to Yukon Energy employees that we participate actively in the communities we serve. Below are just a few examples of community events in which Yukon Energy staff participated:

- Yukon Energy registered a team in the Canadian Cancer Society's Relay for Life in Whitehorse and raised more than \$3,100 for the cause.
- Yukon Energy registered a team in a bowling fundraiser for Big Brothers and Big Sisters of Yukon. Team members raised approximately \$1,000.
- Eight Yukon Energy employees took part in this year's National Commuter Challenge. The team reduced their greenhouse gas emissions by 57.7 kilograms that week.



BOARD OF DIRECTORS

Willard Phelps
Chair

Martin Allen

Paul Birckel

Greg Hakonson

Paul Hunter

Pat Irvin

Patrick James

Barb Joe

SENIOR MANAGEMENT

David Morrison
President and C.E.O.

David MacDonald
*Vice President, Operations
and Engineering*

Hector Campbell
*Director, Resource Planning
& Regulatory Affairs*

Linda Greer
*Director, Human Resources
& Information Management*

Ed Mollard
Chief Financial Officer

Shelley Dixon
Corporate Secretary



BOARD OF DIRECTORS' APPOINTMENTS

Above: Supervisor of Mechanical/
Civil Engineering Bill Haydock
gives the public a tour of one of
Yukon Energy's hydro plants.

PHOTO: www.archbould.com

Section 3(1) of the Yukon Development Corporation Act Regulations (OIC 1993/108) sets out the process for being appointed to the Yukon Energy board.

The Board of the Yukon Development Corporation (YDC) is appointed by the Yukon government and in turn the YDC board appoints the board of Yukon Energy.



Construction of the spill gates at the Whitehorse dam. PHOTO: Yukon Archives

Remuneration

There is no doubt that obligations and responsibilities of Board Directors throughout Canada have increased in recent years, as a result of new governance guidelines and requirements. In the case of Yukon Energy there are also other significant developments that have made the Board of Directors' jobs more demanding and complex. These include a dramatic increase in the number of generation and transmission projects Yukon Energy is involved in.

Remuneration for Yukon Energy board members has been benchmarked against two Conference Board of Canada reports entitled "Compensation of Boards of Directors 2003" and "Compensation of Board of Directors 2005". Yukon Energy's board remuneration has also been benchmarked against the Conference Board's report "Board Practices in Crown Corporations 2008".

The Board Chair is paid \$400 per half day meeting (four hours or less) and \$800 for a full day meeting (more than four hours). In addition, he is paid for a full day (\$800) to prepare for each board meeting.

The Chair is paid \$100 an hour when doing other work for Yukon Energy (examples: meeting with government or other officials, attending conferences, appearing at events on behalf of Yukon Energy). In 2008 the Chair spent a lot of time investigating geo-thermal potential in Yukon.

Board members receive \$200 per half day meeting, and \$400 per full day meeting, plus they receive a full day's remuneration (\$400) for meeting prep time.

There are two committees that fall under Yukon Energy's board: the Audit and the Human Resources Committees. **Committee Chairs** are paid \$300 per half day meeting and \$600 per full day meeting, with one day (\$600) of prep time per committee meeting.

Committee Members receive \$200 per half day meeting and \$400 per full day meeting. They do not receive remuneration for prep time.

Travel per diem for all Yukon Energy board members, including the Chair, is a maximum of \$100. Meal per diems are as per Yukon Energy's Employee Travel Policy, with a maximum daily amount of \$78.



Left: Carmacks to Stewart transmission line construction.
PHOTO: www.archbould.com.

Right: Construction of a 15,000 horsepower hydro-generating station at Whitehorse Rapids on the Yukon River was approved in July 1956 and on-site work started in November of that year.

PHOTO: Yukon Archives.

Bottom right: Refurbishing of one of Whitehorse's hydro generators.

PHOTO: Yukon Energy.

MANAGEMENT DISCUSSION AND ANALYSIS

As discussed elsewhere in this report, the key operational accomplishment for 2008 was completion of Stage I of the Carmacks-Stewart Crossing Transmission Project (CSTP I) and the spur line to Capstone Mining Corporation's high grade copper west of Minto Landing. Corporate sales budgets had assumed connection of this significant load (forecast 12 percent increase on annual basis) on October 1. However, logistical and engineering issues during final construction and commissioning stages delayed this hook up until later in November. Sales volumes since energization have met expectations.

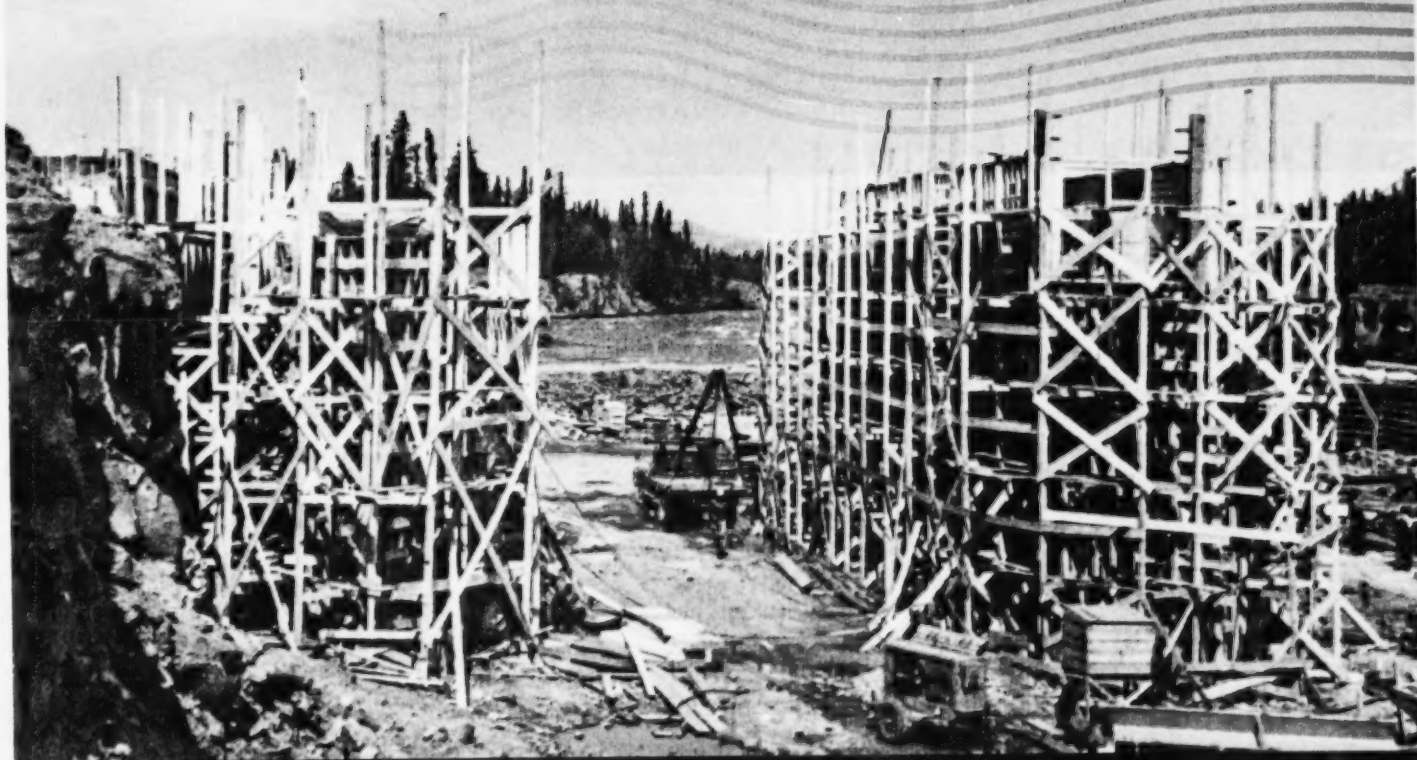
Non-industrial sales volumes were at or slightly above budget. Secondary sales volumes were significantly off from budget due to equipment issues at key customer locations. Wholesale sales, representing 80 percent of forecast sales volumes, followed trends of the last several years by exceeding budgets by 4.6 MWh or two percent.

Also of note, these sales totals reflect the impact of a 3.48 percent interim rate reduction for all customers effective December 1, 2008. This reduction was made possible by the connection of the Minto mine and management expects this rate effect to be finalized by a decision of the Yukon Utilities Board in late summer 2009.

The economic downturn that began in the last half of 2008 has introduced some uncertainty in management estimates for 2009. Early indications are that sales volumes will maintain recent levels, but the atypical growth of recent years is not expected to continue in the short term.

Total operating expenses were above budget for the 2008 year. Management of increasing cost pressures will be key in 2009.

Core capital spending was close to budget in 2008, despite unplanned resource commitments on CSTP I as well as supply chain issues on two diesel overhaul projects. In 2009, the Corporation is anticipating unprecedented spending on planning activities geared to advancing development of new and/or enhanced green energy supplies. The ability to accomplish this will be contingent on securing adequate funding and staged approvals of the Board of Directors.

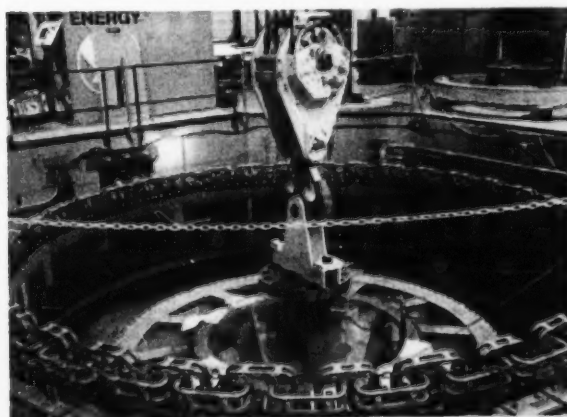


FINANCIAL HIGHLIGHTS

December 31, 2008

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AUDITOR'S REPORT



Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Board of Directors of the Yukon Energy Corporation

I have audited the balance sheet of Yukon Energy Corporation as at December 31, 2008 and the statements of income, other comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Utilities Act* and regulations, the *Business Corporation Act*, and the articles and by-laws of the Corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Vancouver, Canada
13 March 2009

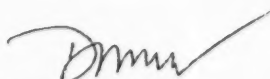
MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the financial statements and all other financial information relating to the Corporation contained in this annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the financial statements.

Management has established internal accounting control systems to meet its responsibilities for reliable and accurate reporting. These systems include policies and procedures, the careful selection and training of qualified personnel and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditor to discuss auditing and financial matters to assure that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Audit Committee and management.



David Morrison,
President and CEO



Ed Mollard
Chief Financial Officer

March 13, 2009

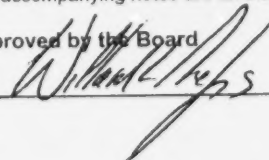
BALANCE SHEET (in thousands of dollars)

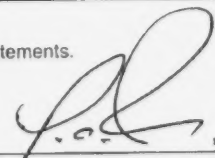
As at December 31,	2008	2007
Assets		
Current		
Cash	\$ 3,254	\$ 6,237
Accounts receivable (Note 5)	5,145	3,726
Materials and supplies	2,567	2,352
Prepaid expenses	278	186
	11,244	12,501
Customer contribution financing (Note 6)	14,991	-
Deferred uninsured losses (Note 7)	556	463
Diesel contingency fund (Note 8)	883	856
Property, plant and equipment (Note 9)	197,329	164,394
Deferred charges (Note 10)	13,451	9,128
	\$ 238,454	\$ 187,342
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 11)	8,853	4,119
Current portion of long-term debt (Note 15)	4,721	3,416
	13,574	7,535
Faro mine dewatering deferral revenue (Note 12)	1,191	1,191
Long-term pension liability (Note 20)	801	741
Deferred revenue (Note 13)	7,356	7,626
Contributions in aid of construction (Note 14)	45,951	16,495
Regulatory provision for future removal and site restoration costs	5,168	5,241
Diesel contingency fund (Note 8)	883	856
Long-term debt (Note 15)	102,753	87,263
	177,677	126,948
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
Retained earnings	21,777	21,394
	60,777	60,394
	\$ 238,454	\$ 187,342

Commitments and Contingencies (Notes 22 and 23)

The accompanying notes are an integral part of the financial statements.

Approved by the Board

 Chair

 Director

STATEMENT OF OPERATIONS, COMPREHENSIVE INCOME AND RETAINED EARNINGS

(in thousands of dollars)

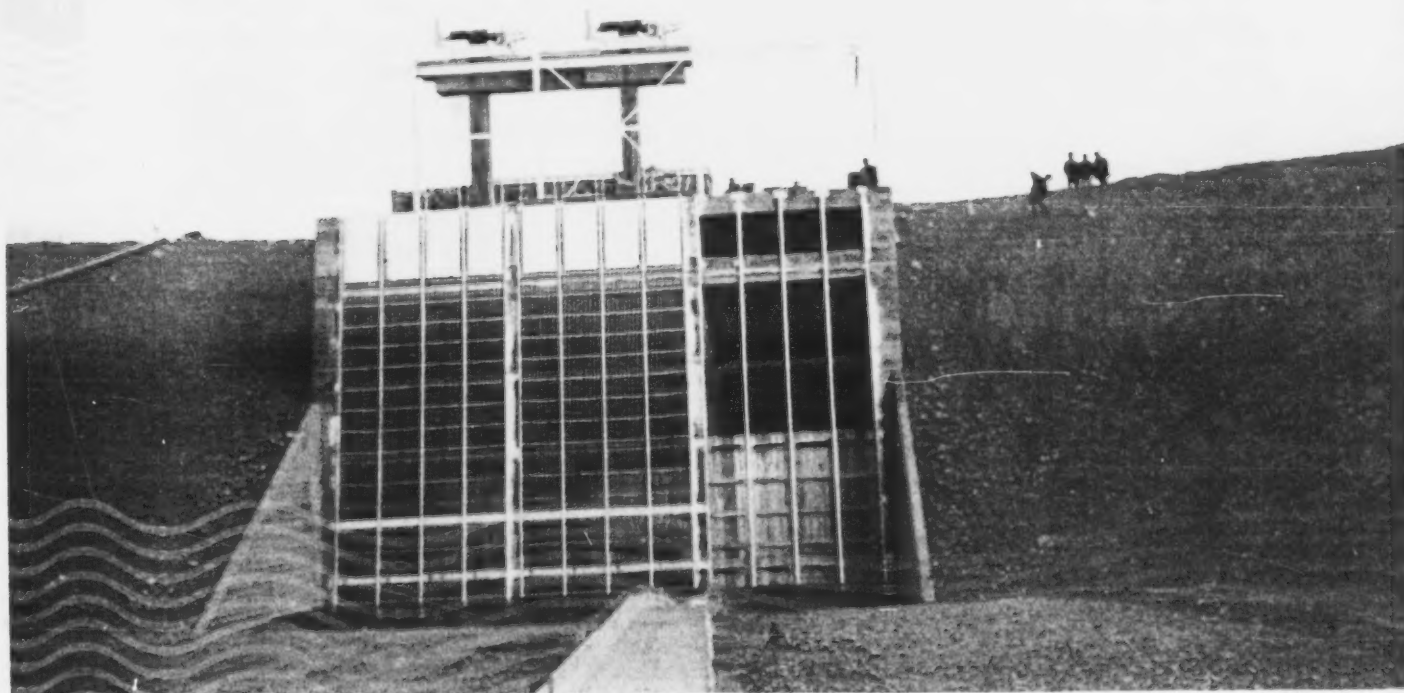
For the year ended December 31,	2008	2007
Revenue		
Sales of power (Note 16)	\$ 28,518	\$ 28,077
Other	529	309
	29,047	28,386
Operating expenses		
Administration (Note 17)	7,751	7,399
Operations and maintenance (Note 18)	6,760	5,599
Amortization of property, plant and equipment	5,153	4,939
Amortization of deferred charges	937	1,108
	20,601	19,045
Income from operations	8,446	9,341
Other income		
Allowance for funds used during construction	774	138
Amortization of capital assistance	229	215
Interest income	179	259
Contribution from parent (Note 21)	3,000	-
	4,182	612
Other expenses		
Interest on long-term debt	5,294	4,946
Provision for uninsured losses (Note 7)	50	100
Settlement of lawsuit (Note 21)	3,000	-
	8,344	5,046
Net income	4,284	4,907
Other comprehensive income	-	-
Comprehensive income	4,284	4,907
Retained earnings, beginning of year	21,394	20,738
Dividend	(3,901)	(4,251)
Retained earnings, end of year	\$ 21,777	\$ 21,394

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS (in thousands of dollars)

For the year ended December 31,	2008	2007
Operating activities		
Cash receipts from customers	\$ 28,637	\$ 28,886
Cash paid to employees and suppliers	(15,427)	(13,900)
Interest paid	(5,294)	(4,946)
Interest received	178	259
Cash provided by operating activities	8,094	10,299
Financing activities		
Repayment of long-term debt	(3,501)	(7,473)
Proceeds from long-term financing	16,081	4,251
Contributions in aid of construction	29,686	4,665
Cash provided by financing activities	42,266	1,443
Investing activities		
Additions to property, plant and equipment	(37,343)	(11,457)
Increase in long-term receivable	(16,000)	-
Cash used in investment activities	(53,343)	(11,457)
Net (decrease) increase in cash	(2,983)	285
Cash, beginning of year	6,237	5,952
Cash end of year	\$ 3,254	\$ 6,237

The accompanying notes are an integral part of the financial statements.



NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

1. NATURE OF OPERATIONS

Yukon Energy Corporation (the "Utility") is incorporated under the *Yukon Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation (YDC), a corporation owned by the Government of Yukon. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes.

The Utility is subject to overall regulation by the Yukon Utilities Board ("YUB") and specific regulation by the Yukon Territory Water Board. Both boards are independent from the Utility.

Rate Regulation

All operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment in rate base. Whereas actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility makes an application for its proposed electricity rate changes over the next one or two forecast years. The YUB must ensure that its decision, which fixes electricity rates, complies with appropriate principals of rate making, all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and Utility are to be balanced.

The YUB typically follows a two-stage decision process. In the first stage, the total costs that the Utility will incur to provide electricity to its customers over the immediate future are reviewed and approved. The approval of these costs determines the total revenues the Utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and
- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

As well, in the first stage, the YUB reviews the addition of costs to rate base and assesses these costs to ensure they are prudent.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in-Council 1995/90 and can include a cost-of-service study which allocates the overall utility's cost of service to the various customer classes on the basis of appropriate costing principles.

Normally, the Utility applies for rates in advance of the applicable years. The last rate application was for the 2005 year. The Utility filed a rate application on October 6, 2008 for the 2008 and 2009 forecast years.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

1. NATURE OF OPERATIONS - continued

Water Regulation

The Yukon Territory Water Board pursuant to the *Yukon Waters Act* decides if and for how long the Utility will have a water license for the purposes of operating hydro generation stations in the Yukon. The licenses will also indicate terms and conditions for the operation of these facilities.

Capital Structure

The Utility's policy is to maintain a capital structure of 60% debt and 40% equity at year end. Annual dividends are declared to the parent and typically loaned back in order to maintain this ratio.

2. CHANGE IN ACCOUNTING POLICIES

Capital Disclosures

Effective January 1, 2008, the Utility adopted the new CICA Handbook Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate how an entity manages its capital structure (i.e. debt, equity), its objectives, policies and processes for managing its capital, quantitative data about what the Utility regards as capital and whether the Utility has complied with any capital requirements and, if it has not complied, the consequence of such non-compliance. The additional disclosure is presented in Note 25. As this section only addresses disclosure requirements, there is no impact on the Utility's operating results.

Financial Instruments

Effective January 1, 2008, the Utility adopted two new accounting standards: CICA Handbook Section 3862 *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*. Sections 3862 and 3863 replace Section 3861 *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. In December 2008, the CICA amended the accounting standards to allow rate-regulated enterprises that have not issued, and are not in the process of issuing, debt or equity securities that are, or will be, outstanding in a public market to continue applying CICA Section 3861 instead of Sections 3862 and 3863. The Utility qualifies for the exemption and has chosen to continue applying Section 3861.

Inventories

Effective January 1, 2008, the Utility adopted the new CICA Handbook Section 3031, *Inventories*, which is based on International Accounting Standards ("IAS") 2. The new section replaces the existing Section 3030, *Inventories*. Under the new section, inventories are required to be measured at the "lower of cost and net realizable value", which is different from the existing guidance of "lower of cost and market". Due to the changes in the section the Utility will account for major spare parts, which were previously reported as materials and supplies, as property, plant and equipment. The adoption of this new standard did not have a significant impact on the Utility's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The financial statements of the Utility have been prepared by management. They conform to Canadian generally accepted accounting principles ("GAAP") and take into account generally accepted methods and practices of regulated bodies. The regulatory accounting policies adopted by the Utility differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation differ from that of a non-regulated enterprise. Impacts of accounting for rate regulated operations are further described in Note 4. Consequently, the significant accounting policies have been classified accordingly in the notes below:

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Rate regulated accounting policies

Property, plant and equipment

Property, plant and equipment include an allowance for funds used during construction ("AFUDC") calculated at the weighted average cost of capital which was 7.61% for 2008 (2007 - 7.81%). Upon retirement or disposal, any gain or loss is charged to income in the current year for assets amortized on an individual basis, or charged to accumulated amortization for assets amortized on a pooled basis.

Faro Mine Dewatering Deferral Revenue

Faro mine dewatering deferral revenue represents amounts ordered by the YUB to be held by the Utility on behalf of ratepayers. Typically these amounts are either refunded to the customers or applied to ratepayer deficits through the rate-setting process or through YUB orders.

Deferred uninsured losses

The Utility maintains a regulatory account for recording uninsured losses. An annual provision is approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following general rate application or until a specific application is made to the YUB requesting recovery from or refund to customers.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

All deferred charges are amortized to earnings on a straight-line basis over terms approved by the Yukon Utilities Board.

Cost of feasibility studies are amortized on a straight-line basis over five years.

Cost of infrastructure planning are amortized on a straight-line basis over terms that mimic the length of time the benefit would be received. The longest term of amortization is ten years.

Regulatory hearing costs that are approved by the Yukon Utilities Board are amortized over three years. The remaining amounts in hearing costs at year end are waiting for an approval term by the Yukon Utilities Board.

Deferred customer service costs are being amortized over twelve years. These costs are awaiting YUB approval. If the YUB denies these expenditures in whole or in part, the Utility will be obligated to expense that portion of cost denied.

Regulatory provision for future removal and site restoration costs

The Utility maintains a provision for the future removal of property, plant and equipment and the costs of site restoration related to those assets. Per YUB Order 2005-12 no additional provision is permitted. This account provides for the costs of demolishing, dismantling, tearing down, or otherwise disposing of an asset and any site restoration costs, net of actual recoveries. This account is not used when the costs relate to an asset retirement obligation.

Deferred revenue

Deferred revenue represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The gain is being amortized to income over its useful life which is the same rate as the replacement assets.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Diesel contingency fund

The Utility maintains an asset and an offsetting liability on behalf of ratepayers. The fund is used to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The Utility is required to file an annual report with the YUB on the fund's activity.

Generally Accepted Accounting Principles

Revenue recognition

All revenues are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sales of power includes an accrual for electricity deliveries not yet billed.

Materials and supplies

Diesel fuel, materials and supplies are recorded at the lesser of average cost and net realizable value. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined. Major spare parts are recorded in the Utility's books as property and equipment.

Property, plant and equipment

Property, plant and equipment is stated at cost which includes materials, direct labour, a proportionate share of directly attributable administration overhead, and finance charges capitalized during construction, less accumulated amortization.

Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 65 years
Diesel plants	25 to 45 years
Wind Turbines	30 years
Transmission	40 to 50 years
Distribution	25 to 40 years
Buildings	20 to 40 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

Asset retirement obligations

On an annual basis, the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment.

The Utility has determined that it has tangible long-lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.



NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Contributions in aid of construction

Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's parent or Government. These contributions are deferred upon receipt and amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers is netted on the statement of operations against amortization expense while amortization of capital assistance from the parent is disclosed separately under Other income.

Deferred water licensing costs

Costs related to obtaining water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the license. The Utility operates its hydro generation facilities under three separate water licenses, with terms ranging from 17 to 25 years.

Employee pension plan

The Utility has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, actuarial gains and losses, and changes in assumptions are amortized over the expected average remaining service period of active employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and actuarial gains and losses. Amortization is on a straight-line basis over the expected average remaining service period of active employees, which is currently 12 years. The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan as of January 1, 2000. The expected return on plan assets is based on the fair value of these assets.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations, and employee pension obligations. Actual results could differ by a significant amount from these estimates.

Management's estimates and assumptions, especially those affecting the reported amounts of regulated assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the Yukon Utilities Board as described in Note 4.

Environmental Liabilities

Environmental liabilities consist of the estimated costs related to the remediation of environmentally contaminated sites. The Utility will accrue a liability and record an expense, related to present or past activities of the Utility, when there is a legal obligation to remediate the contamination and the costs can be reasonably estimated. If the likelihood of the Utility's obligation to incur these costs is either not determinable or the costs cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements. The Utility reviews its estimates of future environmental liabilities on an ongoing basis.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Future Accounting Changes

Effective January 1, 2009 the CICA has removed the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, which provides relief to entities subject to rate regulation from the requirement to apply the section to the recognition and measurement of assets and liabilities arising from rate regulation. Management is currently assessing the impact of the change on the Utility's financial statements which may be significant.

On February 13, 2008, the Canadian Accounting Standards Board of Canada confirmed the adoption of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in place of Canadian Generally Accepted Accounting Principles (GAAP) effective January 1, 2011. The Utility is required to present its first set of published IFRS statements for the year ended December 31, 2011 with comparative information.

Although IFRS uses a conceptual framework similar to Canadian GAAP, there are differences in accounting standards and the Utility is currently assessing the impact of those differences.

To facilitate the conversion process, the Utility has appointed an external advisor and assembled a core project team. Project planning started with a high level diagnostic review of significant differences between IFRS and Canadian GAAP. Areas with significant differences that will impact the Utility include: Regulatory Accounting, Property, Plant & Equipment, Employee Benefits and the overall presentation of the financial statements. The overall impact of the change cannot be determined at this point.

Effective for years starting on or after October 1, 2008, the CICA has issued Section 3064 *Goodwill and Intangible Assets* which replaces Sections 3062 *Goodwill and Other Intangible Assets* and 3450 *Research and Development*. The new section is in alignment with International Financial Reporting Standards IAS 38 with respect to the definition and initial recognition criteria of intangible assets, including internally generated intangible assets. Section 3064 reinforces the distinction between costs that should be expensed and those that should be capitalised. The adoption of this new standard is not expected to have a material impact on the earnings or assets of the Utility.

4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

Certain items in these financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues in the statement of income as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in earnings in the period that the YUB renders a subsequent decision.

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

In the absence of rate regulation the Utility's net income would have decreased by \$5,860,000 in 2008 (2007 - decreased by \$378,000). The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2008	2007	Expected remaining recovery/settlement (years)	For 2008: In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets:				
Deferred charges (Note 10), net book value				
Feasibility studies and infrastructure planning	\$ 5,787	\$ 2,319	1 to 10	\$ (3,468)
Deferred customer service costs	764	-	12	(764)
Downsizing costs	-	24	0	24
Hearing costs	1,348	1,071	Indeterminate	(277)
Dam safety review	13	27	1	14
Diesel contingency fund (Note 8)	883	856	Indeterminate	(27)
	8,795	4,297		(4,498)
Regulatory liabilities:				
Faro mine dewatering deferral revenue (Note 12)	1,191	1,191	Indeterminate	-
Deferred revenue (Note 13)	7,356	7,626	28	(270)
Deferred uninsured losses (Note 7)	(556)	(463)	Indeterminate	(93)
Regulatory provision for future removal and site restoration costs	5,168	5,241	Indeterminate	(73)
Diesel contingency fund (Note 8)	883	856	Indeterminate	27
	14,042	14,451		\$ (409)
Net impact of assets and liabilities	\$ (5,247)	\$ (10,154)		\$ (4,907)
Impact of other items through income statement				(774)
AFUDC				(179)
Fuel Price Adjustment				
Total effect				\$ (5,860)

Regulatory assets

(a) Deferred charges

Deferred charges represent costs which have been deferred and are being amortized over various periods. In the absence of rate regulation, GAAP would require such costs to be recognized as expenses in the year incurred.

Feasibility studies and infrastructure planning

The costs of determining the feasibility of future capital projects that did not result in a capital project are deferred and amortized over various terms as approved by the Yukon Utilities Board. In the absence of rate regulation, expenses in 2008 would have been \$3,468,000 higher. (2007 - \$680,000 lower expenses)

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

Deferred Customer Service Costs

The costs associated with negotiating terms of service with a new industrial customer. In the absence of rate regulation, expenses in 2008 would have been \$764,000 higher.

Downsizing costs

Costs incurred to assist in downsizing the Utility's workforce are capitalized and amortized to expense over seven years as approved in the Utility's 1993/94 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2008 would have been \$24,000 lower. (2007 - \$47,000 lower expenses)

Hearing costs

These costs are associated with the YUB regulatory proceedings that were held in 2005 and the Resource Plan proceedings that were held for the Carmacks-Stewart Transmission Project in 2007. The costs consist primarily of legal and consulting costs incurred by the Utility and reimbursement of YUB and intervenor costs. YUB Order 2005-12 directed the Utility to defer and amortize the hearing costs over three years. YUB Order 2007-9 directed the Utility to record the Resource Plan Proceeding costs in a Hearing Reserve Account and in the next GRA to include a proposal on how to dispense with the Hearing Reserve Account. In the absence of rate regulation, expenses in 2008 would have been \$277,000 higher. (2007 - \$760,000 higher expenses)

Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12. In the absence of rate regulation, expenses in 2008 would have been \$14,000 lower. (2007 - \$22,000 lower expenses)

(b) Diesel contingency fund

The Diesel contingency fund ("DCF") was established by YUB Order 1996-6 through the Negotiated Settlement process. The DCF is administered by the Utility on behalf of the YUB, and as such is recorded as an asset and a liability. The DCF attracts interest based upon short-term bond rates in which the Utility invests the funds held in trust. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit. Pursuant to YUB order 1996-6, the Utility from time to time is required to transfer amounts to or from the trust it maintains on behalf of ratepayers to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. In the absence of regulation, GAAP would have required any interest earned or incurred to be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's income and expenses in 2008 would have been higher by \$27,000 from interest earned on the DCF. (2007 - \$35,000 higher income and expenses)

Regulatory liabilities

(c) Faro mine dewatering deferral revenue

As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from the Faro Mine under Rate Schedule 34 (Faro Mine Firm Shutdown Power) prior to December 31, 2004, were deferred for the benefit of ratepayers pending direction from the YUB. YUB Order 2005-12 confirmed that effective January 1, 2005 the Faro minesite would be charged the General Service-Government rate so there will be no further increases to Faro Mine Dewatering Deferral Account. This order also approves the Utility to draw down on the Faro Mine dewatering revenue to fund its approved revenue shortfall. YUB Order 2007-2 set the approved 2007 revenue shortfall at \$292,000.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

(c) Faro mine dewatering deferral revenue - continued

In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. In 2008 there were no amounts approved by the YUB for deferral (2007 revenue would have been \$292,000 lower). The period over which the remaining liability will be recognized as revenue for the benefit of ratepayers is dependent on future YUB Board orders and, therefore, cannot be estimated.

(d) Deferred gain on fire insurance proceeds

The deferred gain on fire insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to YUB Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, the Utility's net income in 2008 would have been lower by the amount of the amortization of \$270,000 (2007 - \$270,000 lower).

(e) Deferred uninsured losses

The YUB has approved the use of a provision for uninsured damages and injuries as a means of self-insurance. The provision is maintained through an annual provision approved by the YUB. In order to eliminate the deficit rate payers held as a result of uninsured losses, the Utility was directed by YUB Order 2005-12 to transfer the insurance proceeds being held on behalf of rate payers of \$744,000 to the reserve for uninsured loss, and increase the annual provision from \$50,000 to \$100,000 for the years 2005 to 2007. After 2007 the provision was reduced to \$50,000. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2008 would have been higher by \$78,000 (2007 - \$37,000 lower). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

(f) Regulatory provision for future removal and site restoration costs

Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications, under section 23(1)(b) of the *Public Utilities Act*, the Utility has maintained a reserve for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1 2005, the Utility is required to maintain this reserve as a regulatory provision in addition to any asset retirement obligations. The provision is not to exceed the cumulative value of the provision at December 31, 2004 of \$5,757,000. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches \$2,000,000. Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2008 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of \$73,000 (2007 expenses - \$158,000 lower). The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

(g) Fuel price adjustment

OIC 1998/90 directs the YUB to permit the Utility to adjust electricity rates to reflect fluctuations in the price of diesel fuel. The amount by which actual fuel prices vary from the YUB approved rates is deferred and recovered from or refunded to customers in a future period.

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operating result of the year that they are incurred. In 2008, fuel expenses were deferred and consequently lower by \$179,000 (2007 - \$72,000 lower).

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

4. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

Other items affected by rate regulation

The Utility is required under the *Public Utilities Act* to obtain prior approval from the YUB before making changes to depreciation, amortization, and depletion rates and methods. The YUB permits an allowance for funds used during construction ("AFUDC"), based on the Utility's weighted average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is amortized over future periods as part of the total cost of the related asset, based on the expectation that amortization expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only a cost of debt component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation. In the absence of rate regulation, revenue would be \$774,000 lower (2007 - \$138,000 lower).

It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB as part of the rate-setting process and in the determination of the return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

All amounts maintained as regulatory assets and liabilities are expected to be recovered or settled over the periods noted above. However, there are risks and uncertainties associated with the recovery or settlement related to potential future decisions of the regulator which could result in material adjustments to these assets and liabilities.

5. ACCOUNTS RECEIVABLE

	2008	2007
Wholesale energy sales	\$ 2,773	\$ 2,853
Retail energy sales	1,179	842
Customer Contribution Financing (Note 6)	1,009	-
Other	184	31
	\$ 5,145	\$ 3,726

6. CUSTOMER CONTRIBUTION FINANCING

Under the terms of a Power Purchase Agreement with an industrial customer, the Utility has agreed to finance the cost of assets built to serve the customer. Of the total financed cost, \$8.881 million will be repaid with blended principal and interest payments over 7 years at 7.5% interest. The remainder of \$7.2 million is also financed at 7.5 % with interest only payments payable monthly for the first four years and the principal repaid with blended payments over the succeeding 3 years. At the direction of the Yukon Utilities Board, the collection risk on this instrument is borne by the Utility's parent. Accordingly, the parent has loaned cash in an amount equal to this receivable at substantially the same terms. The Utility has recorded this loan as long term debt (see Note 15) and, if the industrial customer defaults on their debt, the Utility is released from the obligation to re-pay the parent. The amount receivable in 2009 is \$1.009 million.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

7. DEFERRED UNINSURED LOSSES

	2008	2007
Opening balance	\$ 463	\$ 500
Provision	(50)	(100)
Losses incurred		
Asset replacements	143	63
Closing balance	\$ 556	\$ 463

8. DIESEL CONTINGENCY FUND

	2008	2007
Opening balance	\$ 856	\$ 821
Interest	27	35
Closing balance	\$ 883	\$ 856

Diesel Contingency Funds are monies invested in a pooled money market fund. The short-term securities held in the fund have an average maturity of less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2008 was 3.43% (2007 - 4.63%). The fair market value of these investments is equal to the carrying amount.

9. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2008 Net book Value	2007 Net book Value
Generation	\$ 139,686	\$ 52,081	\$ 87,605	\$ 89,917
Transmission	83,783	13,028	70,755	42,470
Distribution	26,307	5,720	20,587	10,003
Buildings and other equipment	17,174	6,146	11,028	10,732
Transportation	2,861	964	1,897	1,808
Land and land rights	1,117	-	1,117	1,119
Construction-in-progress	4,340	-	4,340	8,345
	\$ 275,268	\$ 77,939	\$ 197,329	\$ 164,394

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

10. DEFERRED CHARGES

	Cost	Accumulated Amortization	2008 Net book Value	2007 Net book Value
Deferred water licensing costs	\$ 9,007	\$ 3,468	\$ 5,539	\$ 5,687
Feasibility studies and infrastructure planning	7,063	1,276	5,787	2,319
Hearing costs	2,330	982	1,348	1,071
Deferred customer service costs	769	5	764	-
Downsizing costs	334	334	-	24
Dam safety review	213	200	13	27
	\$ 19,716	\$ 6,265	\$ 13,451	\$ 9,128

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
Trade payables	8,277	2,877
Employee compensation	414	368
Other	162	874
	8,853	4,119

12. FARO MINE DEWATERING DEFERRAL REVENUE

	2008	2007
Faro Mine Dewatering Deferral revenue		
Opening balance	1,191	1,483
Applied to revenue shortfall	-	(292)
Closing balance	\$ 1,191	\$ 1,191

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

13. DEFERRED REVENUE

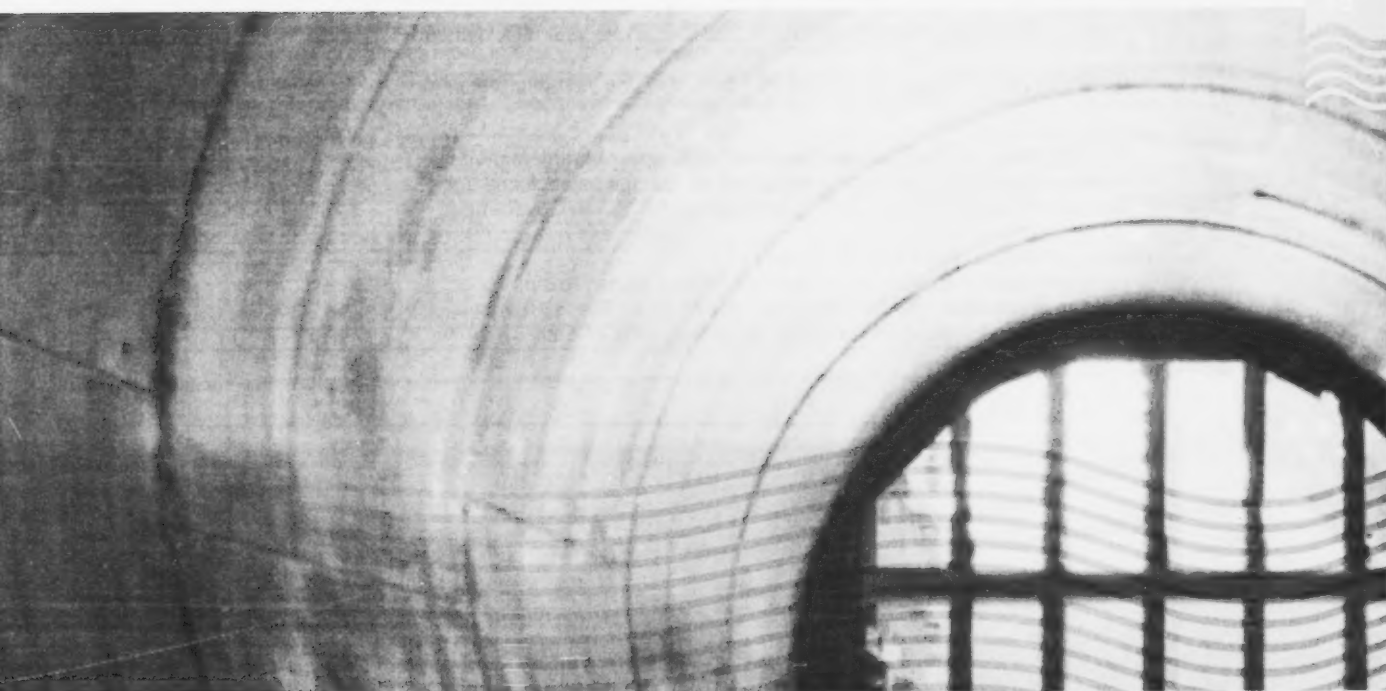
	2008	2007
Deferred gain on fire insurance proceeds - capital assets (net of accumulated amortization and adjustments of \$4,246,000 (2007 - \$3,976,000))	\$ 7,356	\$ 7,626
	\$ 7,356	\$ 7,626

14. CONTRIBUTIONS IN AID OF CONSTRUCTION

	2008		2007	
	Gross	Accumulated Amortization	Net	Net
Capital assistance from parent since 1998	\$ 15,812	\$ 1,720	\$ 14,092	\$ 11,813
Contributions from customers since 1998	31,682	574	31,108	3,887
Pre-1998 contributions	1,739	988	751	795
	\$ 49,233	\$ 3,282	\$ 45,951	\$ 16,495

The sources of contributions received prior to 1998 were not recorded separately.

During 2008, the Utility received contributions of \$16 million from Minto Mine, \$10 million from Yukon Government and \$2.957 million from the parent company to fund the Carmacks Stewart Transmission Line.



NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

15. LONG-TERM DEBT

The Utility's long-term debt is summarized as follows:

	2008	2007
Yukon Development Corporation		
\$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of up to \$1,000,000 principal, plus accrued interest and secured by mortgage over specific assets	\$ 26,066	\$ 26,789
\$27,313,661 term note bearing interest at 5.88%, payable monthly, and semi-annual principal payments commencing June 30, 2007 and ending December 31, 2023. The note is unsecured.	24,101	25,707
\$18,000,000 flexible term note related to the Mayo to Dawson Transmission Line project bearing interest at 6.55% repayable in annual installments of \$450,000 principal, plus accrued interest with the balance of \$307,000 due December 31, 2043. The note is unsecured.	15,607	16,057
\$16,081,000 term note related to the Transmission Line Construction Financing, bearing interest at 7.50% repayable in variable monthly installments due December 2017	16,000	-
Unsecured advance bearing interest at 6.03%, due one year after demand	3,649	3,649
Unsecured advance bearing interest at 5.403%, due one year after demand	2,839	2,839
Unsecured advance bearing interest at 5.34%, due one year after demand	3,583	3,583
Unsecured advance bearing interests at 5.28%, due one year after demand	4,251	4,251
Unsecured advance bearing interest at 4.65%, due one year after demand	3,901	-
TD Canada Trust		
\$12,400,000 term note bearing interest at 7.81% payable in monthly installments of \$102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government.	7,164	7,804
Carmacks Stewart First Nation Liability		
Long-term liability payable to several First Nations related to the building of the Carmacks Stewart Transmission Line. These are non interest bearing, repayable in varying installments, due in 2028	313	-
	107,474	90,679
Less current portion	4,721	3,416
	\$ 102,753	\$ 87,263

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

15. LONG-TERM DEBT - continued

\$40,000,000 Flexible term note

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated, respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts. After adjusting for abated interest, the effective interest rate on this instrument for 2008 is 4.92% (2007 - 4.05%).

Mayo to Dawson Transmission Line Financing

The Utility obtained financing from its parent in the amount of \$18 million for a transmission line from the Mayo hydro generating station to Dawson City. The financing was obtained effective September 6, 2003, the date the transmission line came into service. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built and Dawson City had continued to be served by diesel generation. The maximum interest payable on the note in any year is determined by a formula which compares the costs and benefits of operating the line. For example, the costs include depreciation, return on equity, and operating and maintenance expense. The benefits include diesel fuel costs not incurred. As per the agreement, total costs, including interest, cannot exceed the benefits.

If the costs of operating the line exceed the benefits in any year, Yukon Development Corporation will pay Yukon Energy Corporation the difference on or before March 31 of the next calendar year.

In 2008, benefits exceeded costs, which resulted in \$1,052,000 in interest paid to Yukon Development Corporation. (In 2007, benefits exceeded costs, which resulted in \$1,081,000 in interest paid to Yukon Development Corporation)

Unsecured Advances

The Utility declared a dividend to the parent in the amount of \$3,901,000 (2007 - \$4,251,000) and this was loaned back to the Utility at an interest rate of 4.65% in order to maintain the capital structure. This advance is unsecured and due one year after demand.

Transmission Line Construction Financing

The Utility obtained financing from its parent in the amount of \$16 million for an industrial customer's Capital Cost Contribution for the transmission line from Carmacks to Minto Landing and Spur line to the customer. This amount represents the initial estimate of costs. The financing was obtained effective November 22, 2008, the date the transmission line came into service. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built. The Utility is obliged to repay the loan when payments are received from the customer under the Power Purchase Agreement. The parent company takes all the risk involved in this debt.

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2009	4,721
2010	4,855
2011	4,999
2012	5,286
2013	6,956
Thereafter	80,657

\$ 107,474

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

15. LONG-TERM DEBT - continued

Fair value

Fair value at December 31, 2008 of \$112 million (2007 - \$101 million) for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

16. SALES OF POWER

	2008	2007
Wholesale	\$ 22,999	\$ 22,460
General Service	2,804	2,731
Residential	1,523	1,509
Secondary Sales	777	1,000
Other	86	377
Industrial	329	-
	\$ 28,518	\$ 28,077

17. ADMINISTRATION EXPENSES

	2008	2007
Wages and benefits	\$ 3,554	\$ 3,202
General office	1,312	1,152
Insurance and taxes	1,016	1,069
Training, recruitment and development	604	459
Information systems	456	530
Board of Directors	256	167
Environmental	130	173
Regulatory loss	196	481
Intercompany services	162	146
Material management and contracting	65	20
	\$ 7,751	\$ 7,399

18. OPERATIONS AND MAINTENANCE EXPENSES

	2008	2007
Wages and benefits	\$ 3,735	\$ 3,246
Maintenance		
- hydro, diesel and wind	823	677
- lines and substations	869	567
- building and vehicle	882	730
Fuel	291	218
Water level measurement	160	161
	\$ 6,760	\$ 5,599

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

19. RELATED PARTY TRANSACTIONS

The Utility is related in terms of common ownership to all Government of Yukon departments, agencies and Crown Corporations. Transactions with these entities are entered in the normal course of operations. All transactions are recorded at the rates set out by the YUB.

Revenue from related parties is included in Other revenue on the statement of operations. Rate Stabilization Fund revenues are received from YDC (the "parent company") in accordance with terms established by the Government of Yukon (YG) which established the fund to protect certain ratepayers by minimizing the impact of rate increases. These revenues are included in the Sales of power on the statement of operations.

The following table summarizes the Utility's related party transactions for the year:

	2008	2007
Revenue		
Sales of service to YDC	\$ 161	\$ 157
Program cost reimbursement from YG	92	82
Rate Stabilization Fund subsidy received from YDC	\$ 206	\$ 310
Operating expenses		
Payment of interest on long-term & short-term debt to YDC	\$ 4,711	\$ 4,311
Payment for Financial information system usage to YDC	177	177
Other income		
Contribution from parent for settlement of lawsuit	\$ 3,000	-
Other receipts		
Capital Contributions from YDC for Carmacks Stewart Transmission Line	\$ 2,957	\$ 4,000
Capital Contributions from YG for Carmacks Stewart Transmission Line	10,000	-
Capital Contributions from YG for Aishihik Hydro third turbine	750	-
Other payments		
Payment of dividend to YDC	\$ 3,901	\$ 4,251
Payment on contribution agreements to YDC	-	25



NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

19. RELATED PARTY TRANSACTIONS - continued

At the end of the year, the amounts receivable from and due to related entities are as follows:

	2008	2007
Direct parent company		
Accounts receivable	\$ 245	\$ 76
Accounts payable	\$ 338	\$ 74
Current portion of long-term debt	\$ 4,003	\$ 2,776
Long-term debt	\$ 95,820	\$ 80,099
Government of Yukon		
Accounts receivable	\$ 92	\$ 82

These balances are non-interest bearing and payable on demand except for long-term debt (Note 15).

20. PENSION COSTS AND OBLIGATIONS

The Utility sponsors a defined benefit pension plan which provides benefits based on length of service and final average earnings as follows:

- years of pensionable service;
- the average annual earnings during any five consecutive years of pensionable service where earnings are the highest; and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same five year period

Annual cost of living increases to a maximum of 3.0% are provided to pensioners. The Utility contributes amounts as recommended by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings; and
- 5.0% of earnings in excess of the year's maximum pensionable earnings to a maximum of \$2,500 per year.

The Utility has contracted with external organizations to provide services of trustee, administrator and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2007 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2010. The pension costs and obligations were based on the data used in the January 1, 2007 funding valuation and have been projected to December 31, 2008 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by Group Retirement Services, the plan's custodian as at December 31, 2008. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows:

	December 31, 2008	December 31, 2007
Equities	45.1%	51.0%
Fixed Income Securities	45.0%	38.2%
Real Estate	9.9%	10.8%

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

20. PENSION COSTS AND OBLIGATIONS - continued

Information about the Utility's defined benefit plan as at December 31, in aggregate, is as follows:

	2008	2007
Discount rate-accrued benefit obligation	6.25%	5.50%
Discount rate-benefit costs	5.25%	5.25%
Expected long-term rate of return on plan assets	6.50%	6.50%
Assumed rate of salary escalation	3.00%	3.00%
Assumed rate of pension indexing	2.50%	2.50%
Expected average remaining service period of active employees	12 years	12 years
Benefit obligation determined by actuarial valuation	\$ 9,583	\$ 10,010
Fair value of plan assets	6,589	7,500
Plan deficit	\$ 2,994	\$ 2,510
Unrecognised amount:		
- transitional asset	152	169
- net actuarial losses	(2,213)	(1,875)
Accrued benefit liability	\$ 933	\$ 804
Current portion of accrued benefit liability	\$ 132	\$ 63
Long-term portion of accrued benefit liability	801	741
Accrued benefit liability	\$ 933	\$ 804
Pension expense	\$ 523	\$ 493
Employer contributions	\$ 394	\$ 308
Employee contributions	\$ 123	\$ 113
Benefits paid	\$ 154	\$ 117

The accrued benefit liability has been recorded on the Utility's books of account and its current portion of \$132,000 (2007 - \$63,000) is included in accounts payable and accrued liabilities on the balance sheet.

Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and employees hired before January 1, 2002 who belonged to the defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2008, these were \$220,000 (2007 - \$184,000).

Total cash payments for employee future benefits for 2008, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were \$614,000 (2007 - \$492,000).

As at December 31, 2008, the Utility's defined benefit pension plan had 36 members (2007 - 38), and the RRSP had 45 members (2007 - 41).

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

21. LEGAL SETTLEMENT

During the year, the Utility settled an outstanding dispute with the general contractor on the project to construct a transmission line between the Mayo hydro-electricity generation station and the community of Dawson. The settlement agreement required that, among other things, the Utility make a payment to the contractor of \$3 million for work performed, plus \$264 thousand for funds held on behalf of the contractor resulting from an insurance claim during construction. With this payment, the Utility is free of any future liability resulting from this dispute. The parent paid these funds on behalf of the Utility.

22. COMMITMENTS

(a) Financial Information System Lease

The Utility leases a financial information system from the parent. Minimum lease payments for the remaining year is as follows:

	2009	147
Total	\$	147

(b) Aishihik Water Licence

The Yukon Territory Water Board issued a water use license in 2002, valid until December 31, 2019, for the Utility's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this license commits the Utility to meet a number of future requirements including:

- a) annual payments of \$25,000 until 2011 for the purpose of construction and maintenance of a heritage camp and delivery of programs at the camp;
- b) Heritage Mitigation Plan. The Utility did not incur expenditures in 2008 on heritage projects and the amount to be expended in the future has not yet been determined; and
- c) annual fish monitoring programs.

Fish monitoring programs are also required under an authorization provided by the federal government Department of Fisheries and Oceans, which is valid until December 31, 2019. The costs of meeting these requirements are accounted for as water licence costs in the year they are paid.

(c) Diesel Generator Purchase

As part of the Power Purchase Agreement (PPA) with Minto Explorations Limited (MEL), the Utility agreed upon commencement of service to the mine and subject to other conditions to pay MEL \$2,240,000 for the assignment of four leased diesel generators with a combined continuous rating of 6.4 MW. As at December 31 2008, all conditions had not been met and it cannot be estimated at this time when all conditions will be met.

d) Purchase Orders

The Utility has entered into contracts to purchase products or services totaling \$270,000 for which the liability has not been incurred as at December 31 2008 as the product or service had not been provided.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

23. ENVIRONMENTAL LIABILITIES

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Utility conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations.

The Utility has conducted environmental assessments at all its diesel plant sites. At sites where environmental contamination was found and a legal obligation to remediate the site existed, the Utility has conducted a full remediation.

Therefore, as at December 31, 2008 no environmental liabilities, for which a legal obligation exists to remediate, have been identified by the Utility. The Utility will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis.

24. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2008, the Utility's financial instruments included cash, accounts receivable, long-term receivable, accounts payable and accrued liabilities and long term debt. The fair value of cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

The long-term receivable related to the Transmission Line Construction Financing is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term receivable as at December 31, 2008 approximates its carrying value given that the loan was entered into with the industrial customer on November 22, 2008.

The long-term debt is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities as disclosed in Note 15.

The Utility also has access to a \$10 million line of credit. The account accrues interest on withdrawals at prime rate. The facility was not drawn on at year-end.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Utility is not exposed to significant interest rate risk due to its long-term debt having fixed interest rates.

Credit risk

Credit risk is the risk of failure of a debtor or counterparty to honour its contractual obligations resulting in financial loss to the Utility. The Utility's credit risk is minimal in that its primary customer is a regulated utility.

Liquidity risk

Liquidity risk is the risk that the Utility will not be able to meet its financial obligations as they fall due. The Utility's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Utility's reputation.

The Utility does not engage in hedging transactions.

NOTES TO FINANCIAL STATEMENTS (tabular amounts in thousands of dollars)

December 31, 2008

25. CAPITAL MANAGEMENT

The Utility's capital is its equity which is comprised of share capital and accumulated funds in the form of retained earnings. The Utility manages its equity by managing revenues, expenses, assets and liabilities to ensure the Utility effectively achieves its objectives while remaining a going concern.

The Utility monitors its capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, which is comprised of long-term debt, including the portion of long-term debt due within one year. Total capitalization is calculated as total debt plus total shareholder's equity as shown on the balance sheet. The Utility maintains a balance in retained earnings as an indicator of the Utility's equity position.

The Utility has a policy which defines its capital structure at a ratio of 60% debt and 40% equity. This policy has been reviewed and accepted by the Yukon Utilities Board.

The long-term debt with the parent company of \$16 million that relates to the Transmission Line Construction Financing is not included in this calculation. This long-term debt is linked with the long-term receivable from the industrial customer. The Utility bears no risk in holding this debt so the amount was removed from this calculation.

The table below summarizes the Utility's debt to total capitalization position:

(thousands of dollars)	2008	2007
Long-term debt due within one year	4,721	3,416
Long-term debt	102,753	87,263
Total Debt	107,474	90,679
Less debt related to the Transmission Line Construction Financing	16,000	-
Total debt to include in the calculation	91,474	90,679
Share capital	39,000	39,000
Retained earnings	21,777	21,394
Total equity	60,777	60,394
Total capitalization	152,251	151,073
Total debt to total capitalization	60 %	60 %

There were no changes in the Utility's approach to capital management during the period.

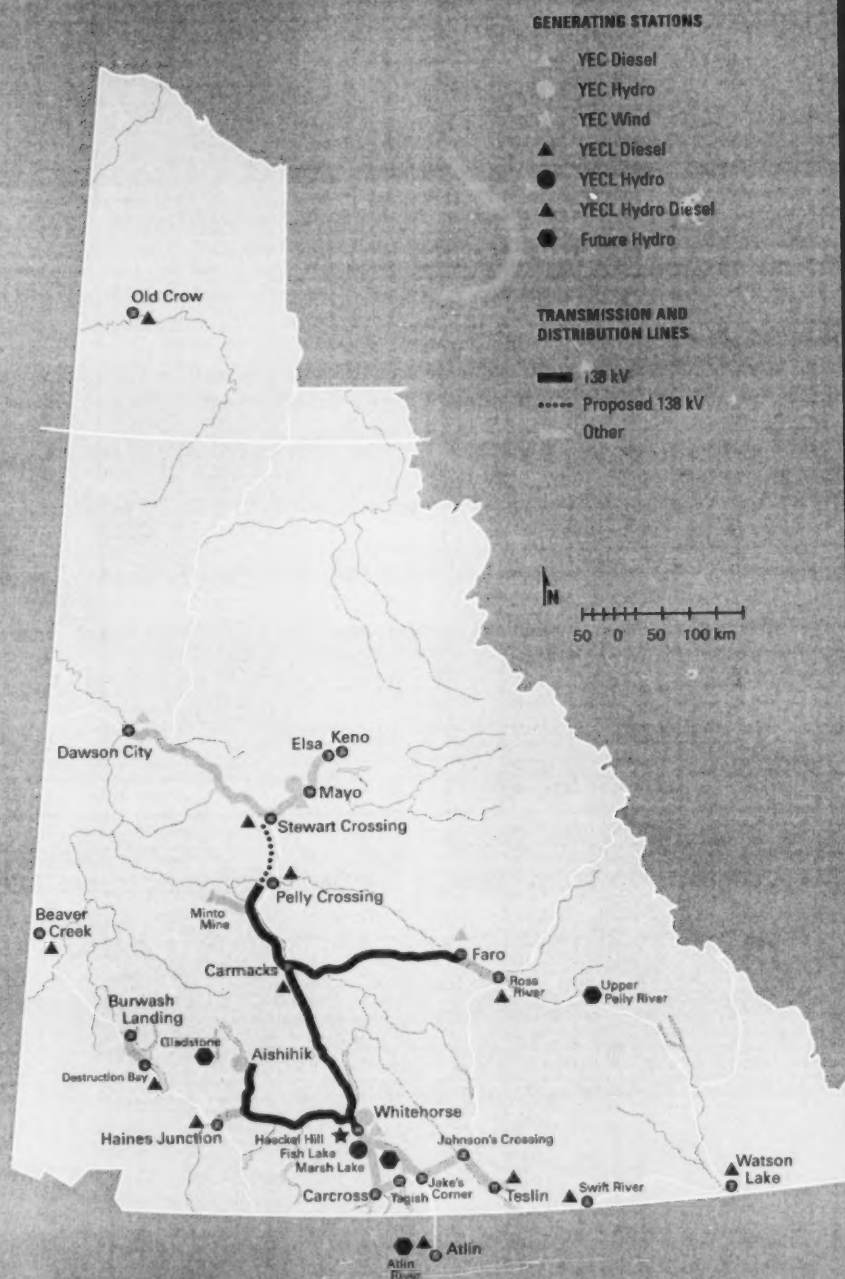
26. COMPARATIVE FIGURES

Certain 2007 figures have been reclassified to conform with the current year's presentation.



View of the completed Whitehorse Rapids Fishway and dam.
PHOTO: Yukon Archives/ Whitehorse Star

YUKON ENERGY TRANSMISSION AND GENERATION FACILITIES



YEC SYSTEM (in MW)

Hydro Facilities

Whitehorse (WAF)*	40.0
Aishihik	30.0
Mayo	5.4
Total	75.4

Wind Facilities

Haeckel Hill	0.8
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Diesel Facilities

Whitehorse (WAF)	25.0
Faro (WAF)	10.4
Dawson	4.3
Minto Mine	6.4
Mayo	2.0
Total	48.1

TOTAL YEC SYSTEM 123.5

YECL SYSTEM (in MW)

Hydro Facilities

Fish Lake	1.3
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Diesel Facilities

Carmacks (WAF)	1.3
Haines Junction (WAF)	1.3
Teslin (WAF)	1.3
Ross River (WAF)	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	0.7
Stewart Crossing	0.3
Swift River	0.3
Total	13.7

TOTAL YECL SYSTEM 15.0

Total Yukon Capacity 138.5

*WAF: Whitehorse-Aishihik-Faro interconnected grid



Cover: Members of the Poole
Construction crew working
on the intake structure for the
Whitehorse hydro plant.

PHOTO: Yukon Archives

Yukon Energy employee Ron Gee

PHOTO: www.archbould.com

Back cover: The Whitehorse dam
as seen today

PHOTO: www.archbould.com



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